

STATE WATER RESOURCES CONTROL BOARD
RESOLUTION NO. 91-53

AMENDMENT OF THE IMPLEMENTATION POLICY
FOR THE SMALL COMMUNITIES GRANT (SCG) PROGRAM

WHEREAS:

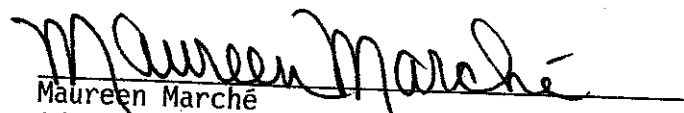
1. The State Board adopted the Implementation Policy for the Small Communities Grant Program on September 21, 1989;
2. The Division now has 18 months of experience administrating the SCG Program, and has received a number of suggestions to improve the program;
3. The State Board asked the Division to develop criteria for identifying and approving high-cost projects to ensure maximum distribution of the limited State bond funds available;
4. The Policy calls for the issuance of separate planning, design, and construction grants. Taking each project to the State Board for approval three times creates unnecessary delays for small amounts of money involved.

THEREFORE BE IT RESOLVED THAT THE STATE BOARD:

1. Adopts Exhibit A, the amended Policy for Implementing the Small Communities Grant Program;
2. Authorizes the Division to issue planning and design grants to projects on the approved Priority List meeting program requirements, except for design grants to identified high-cost projects, which must be individually approved by the State Board before grant award.

CERTIFICATION

The undersigned, Administrative Assistant to the Board, does hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly adopted at a meeting of the State Water Resources Control Board held on June 20, 1991.


Maureen Marché
Administrative Assistant to the Board

JUN 11 1991

EXHIBIT A

DRAFT

SMALL COMMUNITIES GRANT
IMPLEMENTATION POLICY

POLICY FOR IMPLEMENTATION
OF SMALL COMMUNITIES GRANT PROGRAM

Adopted by: The State Water Resources
Control Board on June 20, 1991

TABLE OF CONTENTS

<u>TOPIC</u>	<u>PAGE</u>
I INTRODUCTION	1
II DEFINITIONS	1
III OTHER ASSISTANCE	3
IV PROJECT PRIORITY SYSTEM	3
A. Regional Board Lists	3
B. Priority Classes	5
C. Statewide List	5
D. Project Ranking	6
E. Second Home Communities	6
F. Restrictions and Adjustments	6
G. Project Removal and Changes	6
V GRANT FUNDING PROCEDURES	7
A. Pollution Studies	7
B. Grant Funding Procedures	7
C. Grant Payments	9
D. Procurement of Consultants	9
E. Land Purchase	9
VI CALCULATION OF THE GRANT AMOUNT	9
A. Definitions and Calculation of the Grant Amount	10 12
B. Notes	12
VII FACILITIES PLANNING	13
A. Administrative Assistance	13
B. Project Feasibility Report	13
C. Selected Alternative	14
D. Environmental Documents	15
E. Revenue Program	15
F. Concept Approval	16
G. Allowance Project Categories	16
H. Connection to Collection System	18
I. Planning Allowance and Disbursements	18

VIII	PLANS AND SPECIFICATIONS (P&S)	19
	A. Division Review Objectives	19
	B. Required P&S Submittals	20
	C. Design Allowance and Disbursement	20
	D. Final Revenue Program and Sewer Use Ordinance	20
	E. Bonding Requirements	20
IX	CONSTRUCTION	21
	A. Construction Grant	21
	B. Prevailing Wages	21
	C. Bid Protests	21
	D. MBE/WBE Requirements	21
	E. Civil Rights Compliance	21
	F. Cultural Resources Protection	21
	G. Pre-Bid Conference	22
	H. Pre-Construction Conference	22
	I. Approval to Award	22
	J. Construction Contract Award	23
	K. Change Orders	23
	L. Payment Requests	23
	M. Construction Management Reviews	24
	N. Enacted Ordinances	24
X	PROJECT OPERATION	24
	A. Project Performance Certification	24
	B. Operations and Maintenance Manual	25
XI	RECORD KEEPING REQUIREMENTS	25
	A. Project Accounts	25
	B. Final Project Inspection	26
XII	ADMINISTRATIVE ASSISTANCE	26
	A. Project Management	26
	B. Financial/Management Reviews	26

APPENDICES

A.	Revenue Program Guidelines
B.	Allowance Tables

SMALL COMMUNITIES GRANT PROGRAM

I. INTRODUCTION

With the end of the Clean Water Grant Program and the advent of the State Revolving Fund (SRF) Loan Program (Federal Clean Water Act Amendments of 1987), it is recognized that many small communities will not be able to afford the higher costs of the SRF Loan Program.

In response to the problems of small communities, the voters passed the Clean Water and Water Reclamation Bond Law of 1988 which contains \$25 million in state grant assistance for small communities. The law defines a small community as less than 3,500 people, and states that no grant shall exceed \$2 million. It further states that the State Board may make grants on a sliding scale based on a community's ability to pay.

The Small Communities Grant (SCG) Program will only provide the funds needed to make a project affordable. This Policy assumes that a community can afford to spend a certain percentage of its Median Household Income (MHI) on wastewater treatment. The higher the MHI, the higher the percentage the community can afford to spend for wastewater facilities. When a community's wastewater treatment costs (debt service, operation, maintenance, and replacement) exceed what the Policy assumes is affordable, the SCG Program will then provide funds, up to \$2 million, to reduce the costs in order to make the project more affordable.

II. DEFINITIONS

"Allowance" means a sum of money, based on a percentage of the allowable construction costs, to partially reimburse eligible small communities for the costs of planning, design, construction engineering and administration, and project startup engineering.

"Collection System" means the common lateral sewers, within a publicly-owned treatment system, which are primarily installed to receive wastewater directly from facilities which convey wastewater from individual systems, or from private property.

"Concept Approval" means approval by the Division of Clean Water Programs that project concept, developed during the facilities planning process, which represents the cost-effective alternative and which also complies with all state laws, rules, regulations, and guidelines.

"Differing Site Conditions" means (1) subsurface or latent physical conditions at the site differing materially from those indicated in the contract or (2) unknown physical conditions at

the site, of an unusual nature, differing materially from those ordinarily encountered and generally recognizable as inherent in work of the character provided for in the contract.

"Division" means the Division of Clean Water Programs.

"Eligible Small Community" means a city, town, county, district, Indian tribe, or other public body meeting the population limit created under state law with jurisdiction over disposal of sewage and subject to Regional Water Quality Control Board discharge requirements.

"Environmental document" means either an initial study or an Environmental Impact Report (EIR) prepared in accordance with the California Environmental Quality Act (CEQA)

"Grantee" means an applicant who has executed a Small Communities Grant contract or grant agreement.

"Hardship" means a small community with an annual MHI of less than \$32,000 whose sewer service charge exceeds the affordability criteria contained in this Policy.

"High-Cost Project" means a project where the total project cost exceeds \$14,000 per household.

"Interceptor" means a sewer which is designed to intercept wastewater from a final point in a collection system to a treatment facility or another interceptor.

"Permanent resident" means one who actually resides within the project service area for more than six months during the calendar year.

"Pollution Study" means a study to document the existence or absence of a suspected public health hazard or water quality problem.

"Regional Board" means the appropriate California Region Water Quality Control Board.

"Small Community" means a community of 3,500 people or less, or a reasonably isolated and divisible segment of a larger municipality encompassing 3,500 people or less.

"Small Communities Grant" means a grant issued to an eligible small community for up to 97.5 percent of the allowable project costs not to exceed \$2 million.

"State Board" means the State Water Resources Control Board.

"State Revolving Fund" means a fund created by the State of California for providing loan assistance for the construction of treatment works.

"Treatment Works" means any devices and systems for the storage, treatment, recycling, and reclamation of municipal sewage. These devices include intercepting sewers, outfall sewers, sewage collection systems, individual systems, pumping, power, necessary land, additions, alterations, and any other devices for abating, reducing, storing, treating, separating, or disposing of municipal sewage.

III. OTHER ASSISTANCE

Communities receiving a SCG for up to 97.5 percent of the allowable project costs will also be eligible to apply for a low interest loan from the SRF for the local share of the project costs, provided the project is contained on the fundable portion of the statewide SRF Loan Priority List. Communities requesting SRF loans must comply with SRF rules and requirements.

Communities receiving a SCG may also apply to any other state or federal agency for funding the local share of the project costs. If funding is not available for the local share from the SRF or other sources at a reasonable cost, the community may apply for a low interest loan from the Water Quality Control Fund. In no event shall the combined assistance exceed 100 percent of the total project costs.

IV. PROJECT PRIORITY SYSTEM

A. Development of Regional Board SCG Priority Lists.

As necessary, the Executive Officer of each Regional Board shall prepare and approve a regional SCG Project Priority List. Each Executive Officer shall solicit comments on the proposed SCG Priority List from appropriate local planning agencies and communities.

B. Priority Classes.

Proposed projects may be assigned to one of the following Priority Classes:

1. Class A -- Existing or Potential Public Health Problems.

Treatment plant or new collection system projects required to alleviate existing or potential public health hazards where:

a. Unsewered Areas

- 1) The County Board of Supervisors or the County Health Officer has issued a declaration that there is a potential or existing public health hazard in the community involved; and
- 2) A resolution (local moratorium) is adopted by the authorized governing body requiring hook-up of existing residences and businesses to the public wastewater system when it is available, prohibiting the construction and use of new septic tanks in the existing or potential health hazard area, and providing final authority to the Regional Board for approving any exemptions; and
- 3) The Regional Board adopts a resolution approving the health hazard declaration and the local moratorium.

A Regional Board prohibition is acceptable in lieu of 2) and 3) above.

b. Sewered Areas

- 1) The County Board of Supervisors or the County Health Officer has issued a declaration that there is a potential or an existing public health hazard due to discharge from the wastewater treatment plant or from overflows in the collection system; and
- 2) The Regional Board has adopted a Cease and Desist Order containing a prohibition on new connections to the treatment works until the necessary corrections are made.

2. Class B -- Pollution Problems.

Projects required to alleviate potential or existing water pollution problems where:

- a. The Regional Board has determined that there is a potential or existing water pollution problem and has issued a time schedule for compliance with waste discharge requirements, or
- b. The County Board of Supervisors, the City Council, or the County Health Officer has issued a declaration that there is a potential or an existing pollution problem in the community

involved and has adopted a time schedule for compliance, and the Regional Board has adopted a resolution approving and accepting the local declaration.

3. Class C -- Rehabilitation of Wastewater Treatment Plants and Collection Systems.

These projects will be funded by a 10 percent set-aside from the state bond allocation for the program. Projects in this class will be limited to existing treatment and collection systems with an existing or potential public health or water pollution problem where the County Board of Supervisors, the County Health Officer, or the Executive Officer of the Regional Board has certified that an existing or a potential problem exists in the community, which has not been caused by the lack of preventive maintenance or by the employment of uncertified operators.

C. Development of the Statewide SCG Project Priority List.

As necessary, after review of the Regional Board SCG Project Priority Lists, the State Board may adopt a statewide SCG Project Priority List (statewide list). The statewide list shall identify those projects for which state assistance is expected.

1. The statewide list shall include those projects scheduled for grant award during the five-year planning period.
2. Class C projects will be funded from a 10 percent set-aside from the state bond allocation. They will not be in competition for the funds allocated to Class A and Class B projects.
3. The Division will coordinate consistency reviews with Basin Plans.
4. Placement of a project on the statewide list shall not constitute a commitment to fund the project.
5. The State Board may amend the statewide list from time to time, as necessary, to assure timely commitment of available funds.

D. Project Ranking.

1. Projects within all priority classes shall be ranked as follows:

- a. Projects with documented problems shall be grouped above projects with potential problems.
 - b. Priority Water Bodies. Projects in each of the two groups from D.1.a. above discharging to, or associated with, priority water bodies as identified in the California Water Quality Assessment shall be grouped above projects that do not discharge to priority water bodies.
 - c. Median Household Income (MHI). Projects in each of the groups from D.1.a. and b. above will be ranked in accordance with the MHI of the communities. A project that serves a community with a lower MHI will be ranked above a project serving a community with a higher MHI.
 - d. Population. In the event of a tie, projects that serve smaller populations will be ranked above projects serving larger populations.
2. The number of projects placed on the statewide priority list may exceed the available funds. Projects will be funded on the basis of readiness to proceed.
- E. Second Home Communities.
1. Projects providing service to second home communities will not be funded.
 2. Second home communities are those where less than 50 percent of the dwellings or dwelling units are occupied by permanent residents. Seasonal migrant laborers are to be considered permanent residents.
- F. Restrictions and Adjustments.
1. If the priority classification for a project is in any way dependent upon state or local action, or State Board or Regional Board action, only action taken prior to adoption or amendment to the statewide priority list will be considered.
 2. The statewide priority list may be adjusted at any time by the State Board for good cause.
- G. Project Removal and Changes.

A project may be removed from the statewide priority list by the Division when:

1. The applicant fails to submit the necessary data to allow the Division to make a determination that the project is eligible for a SCG.
2. The applicant fails to meet agreed-upon schedules.
3. The population data, MHI data, or results of the formula indicate that the community does not qualify for a SCG.

A grantee has the option to appeal to the State Board, a decision to remove its project from the Priority List. A petition for review by the State Board must be submitted within 30 days of receipt of the Priority List removal letter.

V. GRANT FUNDING PROCEDURES

A. Pollution Studies.

The State Board may use some of the Small Communities money to fund pollution study grants. The SCG Program will pay up to 97-1/2 percent of the eligible costs for an approved pollution study.

The object of the pollution study is to document the existence of an actual or potential public health or water quality problem such that the project meets the minimum requirements for being placed on the Priority List. Requests for funding must be forwarded to the Division for evaluation. Pollution study projects will only be funded to the extent that a pool of projects is necessary to assure obligation of the available SCG funds.

B. Grant Funding Procedures.

1. The community will be advised that its project is on the adopted SCG Priority List and will be requested to complete a Scope of Work checklist and an application for a planning grant.
2. If the project appears to meet the population limit, the maximum MHI limit, and the high-cost criterion, the Division will issue a notice to proceed with facilities planning. A grant contract covering the planning allowance will be forwarded to the applicant after the notice to proceed has been issued.
3. The Division will review the high-cost criterion required in Chapter VII, Paragraph C.5. at the completion of facilities planning. If the total project costs exceed \$14,000 per household, the

Division will take the high-cost project to the State Board for approval before award of the design grant.

4. If the State Board fails to approve a high-cost project, the Regional Board may be asked to reexamine its requirements in a public session. If the enforcement action is a local moratorium, the local agency will be asked to review its action in a public session.
5. After review by the Regional Board, the State Board may be asked to reconsider whether or not the high-cost project should be funded.
6. Following review of the facilities planning documents, the Division will issue a Concept Approval letter approving the planning phase and authorizing the community to proceed with the design phase of the project.
7. After written approval of the planning documents, a design allowance contract will be issued.
8. The Division will take the project to the State Board for Approval to Award (ATA) the construction grant after the 90 percent plans and specifications have been approved, unless the project is found to be a high-cost project (See Paragraph 3. above).
9. The sum of the planning, design, and construction grants will be limited to the amount yielded by the formula, \$2 million, or 97-1/2 percent of the allowable costs, whichever is less. The construction grant will be forwarded to the grantee for signature after the project has been approved by the State Board.
10. If the total sum of all three grants is under \$2 million, the construction grant will be amended once after ATA when the actual allowable project costs are determined. The construction grant will not be amended again except for significant cost decreases, unforeseen site conditions that could decrease or increase the calculated grant amount, and/or for any excess allowances not used for planning, design, administration, and construction engineering services. In any event, the maximum grant amount for all three grants cannot exceed \$2 million.
11. An applicant may proceed with the planning and/or design work prior to signing the planning grant or the design grant. The applicant is responsible for any

planning or design costs which exceed the allowance amount.

12. The State Board reserves the right to reconsider any previous approvals at any time the estimated or actual project construction costs exceed the amount approved by the State Board by more than 25 percent.

C. Grant Payments.

Costs must be incurred before payment can be requested. Grant payments for allowances and construction will be paid upon receipt of a payment request properly executed and sufficiently documented. Pay request instructions are available by contacting the Division. Payments will be made no more frequently than monthly.

D. Procurement of Consultants.

As public agencies, grantees must follow applicable local and state laws in procuring consultant services and must take reasonable measures to ensure that these services are obtained from qualified firms at a reasonable price.

E. Land Purchase

Payment for purchase of eligible land will not be made until after award of the construction grant. Before purchasing eligible land, the grantee must submit necessary information to the project officer and obtain the Division's approval of the price and amount of land before the purchase is made. Acquisition of eligible land must be in conformance with State law.

VI. CALCULATION OF THE TOTAL GRANT AMOUNT

The purpose of the SCG program is to fund a portion of the proposed project's capital cost, such that the sewer service charge will approach the program affordability amount.

The total amount of grant funding for qualified communities shall be calculated on the combined effects of the following factors:

- o The MHI of the community;
- o The estimated annual operation and maintenance costs of the proposed project;
- o The estimated annual debt service (capital cost) for the proposed allowable project costs.

A. Definitions and Calculation of Grant Amount.

1. MHI Median Household Income of the community at the date of initiation of facilities planning based on either federal census data or a local survey approved by the State Board. The MHI will be adjusted to the most recent year for which Federal Consumer Price Index data is available.
2. OMR Wastewater system Operation, Maintenance, and Replacement costs, expressed in dollars per year for the first full year of operation. Includes OMR costs for the existing community wastewater system, if any. Replacement costs submitted must meet the replacement cost guidelines contained in Section 1-2 B. of the Revenue Program Guidelines (see Appendix A).

In the example hereafter cited, the assumed first year OMR costs in community A are:

OM:	\$ 19,600
R:	<u>2,600</u>
Total OMR:	\$21,600

3. RHE The number of Residential Household Equivalents of wastewater flow in the service area for the proposed project. For existing treatment plants where no expansion in capacity is planned, the RHE shall be calculated based on the existing average dry weather flow (ADWF) for residential, commercial and industrial contributors. If a new treatment plant is being built, or an existing plant is to be expanded, the RHE shall be calculated on the design flow of the plant. As an example of how the RHE is computed, if the average household flow in Community A is assumed to be 250 gallons per day (gpd) and the existing ADWF is 0.030 million gallons per day (mgd), the RHE would be 120 units--
$$\frac{30,000 \text{ gpd}}{250 \text{ gpd}} = 120$$

For purposes of the example hereafter cited, the assumed RHE is 120.

4. DS Total allowable wastewater system-related Debt Service expressed in dollars per year for the community. It includes the projected debt service for the allowable project in addition to any debt service for the existing system. Existing debt service will be calculated using a four percent interest rate based on repaying the remaining debt over a 20 year period

commencing on the date the project is placed on the SCG Priority List. The initial debt service projections for the proposed project are to be based on the lowest cost source of local funding (such as the SRF) assuming no SCG assistance. The DS is calculated as follows:
 $DS = \text{Total allowable Project Cost} \times \text{Capital Recovery Factor} + \text{Existing annual DS, if any.}$

In this example, the annual debt service for Community A to finance a one million dollar project with \$900,000 of allowable costs would be:

$$DS = \$900,000 \times 0.07358^* = \$66,222$$

*Capital Recovery Factor for a 20-year term SRF loan at four percent interest rate.

Grantees are to use an assumed SRF interest rate of four percent for all total SCG calculations.

5. AF Wastewater Affordability Factor. The affordability factor is that portion of the MHI considered to represent an affordable annual wastewater service charge. The AF is determined from the following table:

<u>Service Area MHI</u>	<u>AF</u>
<\$14,000	0.80%
\$14,001 to \$17,000	0.90%
\$17,001 to \$20,000	1.00%
\$20,001 to \$23,000	1.10%
\$23,001 to \$26,000	1.20%
\$26,001 to \$29,000	1.30%
\$29,001 to \$32,000	1.40%
>\$32,000	No grant

To calculate the estimated annual affordable cost, interpolate between MHI values exceeding \$14,000. Use 0.8 percent for all values below \$14,000.

6. The total grant amount is calculated as follows:
- Estimated annual allowable cost = allowable debt service + OMR.
 - Estimated annual affordable cost = MHI x AF x RHE.
 - Estimated annual unaffordable cost = annual allowable cost - annual affordable cost.
 - Total amount of grant funds needed to make the project affordable = annual unaffordable cost converted to present worth at a four percent

discount rate (inflation factor). The discount rate will remain a constant four percent.

Estimated total grant amount = DS + OMR - MHI x AF x RHE x 0.07358 (four percent discount rate).

7. An example of this calculation for community A with a 1990 MHI of \$19,000 and an annual OMR cost of \$21,600 is:

Annual allowable cost = \$66,222 + \$21,600 =	\$87,822
Annual affordable cost = \$19,000 x .00967 x 120 =	-22,048
Annual unaffordable share	= \$65,774
Total amount of funding needed = \$65,774 x present worth factor for four percent = \$65,774 x 13.59 =	\$893,869

8. SCG The total Small Communities Grant amount (includes the planning and design grants) will be the lesser of:
- Two million dollars, or
 - The amount of the funding needed as calculated above, or
 - Ninety-seven and one-half percent of the allowable project cost.

Assuming that the allowable costs for community A are \$900,000, 97-1/2 percent of \$900,000 is \$877,500. Since the amount yielded by the formula is greater than \$877,500, the 97-1/2 percent limitation applies and the total grant amount is \$877,500. It should be noted that the total of all three SCGs can never exceed \$2 million.

B. Notes.

- MHI figures used in paragraph A.5. above may be adjusted by the State Board from time to time, as necessary, to account for inflation.
- Communities with a MHI in excess of \$32,000 annually are not eligible for SCG's.
- At the time of concept approval, grantees will be told their target annual service charge based on the maximum available grant amount calculated using the above approach. The final total grant amount will be recalculated at ATA in an attempt, within the limitations of the SCG program, to achieve the target service charge for the actual project construction costs. The calculated SCG is the total grant amount that will be issued for the project.

VII. FACILITIES PLANNING

Grantees will be required to complete a facilities planning process. A complete facilities plan will include a Project Feasibility Report, an appropriate environmental assessment, and a draft Revenue Plan. The facilities plan must be submitted to both the appropriate Regional Board and to the Division for review and approval.

A. Administrative Assistance.

To facilitate expeditious grant approval, the Division may offer administrative assistance during the facilities planning process. When a community is placed on the statewide priority list, the Division may issue a letter offering assistance at the option of the prospective grant applicant. The assistance available may include guidance for (1) identifying project alternatives, (2) selecting the cost-effective alternative, and (3) preparing the Project Feasibility Report, the Environmental Assessment, and the Revenue Program. The Division may also offer assistance to aid grantees in administering and managing the construction of the proposed treatment works.

B. Project Feasibility Report.

A Project Feasibility Report shall be prepared and submitted as part of the grant application process. While early submittal is not a program requirement, the Division strongly recommends that design not be initiated until the facilities plan is approved. The Project Officer shall review facilities planning documents and submit a comment letter to the grantee within ninety (90) days of receipt of the documents. The Project Feasibility Report should contain the following:

1. A description of the existing or potential public health or water quality problem in the community.
2. A cost-effectiveness evaluation of alternative solutions to correct the identified problem. The alternatives must include an evaluation of the alternative of upgrading operation and maintenance of the existing facility (if one exists) to improve effluent quality. As one alternative, the Project Feasibility Report for an unsewered community must consider on-site systems.
3. Cost information on total capital costs, and annual operation and maintenance costs, as well as the estimated annual or monthly costs to residential, commercial, and industrial users for each of the alternatives.

4. A discussion of the population projections, flows, loadings (12 and 20 year projections) and peaking factors used to estimate needed future capacity. This discussion must include an estimate of the existing population in the service area at the estimated date of initiation of construction. Allowable project capacity will be based on the 12-year and 40-year projections from the initiation of construction date.
5. A map of the project's service area.
6. A demonstration that the applicant has the legal, institutional, managerial, and financial capability to ensure adequate construction and operation and maintenance of the treatment works throughout the project's proposed service life.
7. A summary of public participation. A public meeting must be held to obtain public input and to discuss financial and environmental factors related to the project.
8. Compatibility of local planning requirements and/or other agency requirements.

C. Selected Alternative.

The following must be included in the Project Feasibility Report for the selected alternative:

1. A description of the selected alternative.
2. A statement of the relevant design criteria.
3. The estimated capital construction and annual operation and maintenance costs with a description of how the local costs will be financed.
4. A summary of the anticipated user charges for each local wastewater classification, i.e. residential, commercial, and industrial.
5. A comparison of the total project cost per household to the \$14,000 threshold value.
6. A discussion of the water quality and other non-monetary benefits of building the project.
7. A discussion of any necessary intermunicipal service agreements.

8. A discussion of the selected alternate which commits the grantee to compliance with the State Civil Rights Laws.
9. A description and estimate of the Operation and Maintenance (O&M) program for the proposed project. The following items must be addressed in this section:
 - a. A summary of the O&M requirements for each proposed unit process.
 - b. A discussion of operator needs including the type, number and level.
 - c. A discussion of the monitoring and laboratory needs.
 - d. An estimate of the O&M budget over the next five years.
10. An implementation schedule for completion of the project.

D. Environmental Documents.

All grantees must meet the California Environmental Quality Act (CEQA). CEQA requires that all public agencies applying for financial assistance must prepare either an Initial Study and Negative Declaration or an Environmental Impact Report (EIR).

The grantee must submit the draft environmental documents to the Governor's Office of Planning and Research (Clearinghouse) for comments. The State Board, as the responsible agency, will review and comment on the draft documents.

Final environmental documents must be submitted and approved by the Division prior to Concept Approval. If the State Board finds the final environmental documentation to be adequate, a Notice of Determination will be prepared by the Division and filed with the Clearinghouse.

E. Revenue Program.

A Revenue Program must be developed to provide funds for operation and maintenance (including replacement) of the treatment system. A system of charges should be developed based on a fair and equitable distribution of project costs. A draft Revenue Program must be submitted to the Division as part of the facilities plan during the planning phase.

Guidelines for preparing the Revenue Program are contained in Appendix A.

F. Concept Approval.

The Division will review the Project Feasibility Report, environmental documents, the Revenue Program, and the high-cost information required by paragraph C.5. above. The Division, if appropriate, will issue a Concept Approval Letter with an implementation schedule. The Concept Approval Letter will be issued following satisfactory response by the grantee to the Division's comments on the facilities plan and on the high-cost criterion. The Concept Approval Letter will contain a negotiated project implementation schedule.

G. Allowable Project Categories.

Because the amount of grant assistance will, in most cases, be based on affordability, individual eligibility determinations will be kept to a minimum. The following are categories of allowable project costs for inclusion in the formula for calculating the SCG amount:

1. Treatment Plant "Buy-in" Costs Up To 12 Years of Reserve Capacity.

This includes reasonable "buy-in" costs for wastewater treatment and disposal only. Reasonable allowable costs will be determined on a fair and equitable basis.

2. New Collection System Construction Costs.

The construction of new collection systems to serve existing structures at the estimated date of construction within the established boundaries of local public health or pollution hazard areas, or Regional Board prohibition areas, are allowable project costs. Collection systems may be sized for flows up to 20 years as approved in the EIR. Collection systems which serve undeveloped areas will not be an allowable cost. An undeveloped area is one where occupied housing units or businesses do not exist at the time of award of the design allowance. Collection systems which extend across undeveloped land to serve a reasonable number of outlying residences within the health hazard area are allowable. Wye connections plus the lateral in the public right-of-way, or easement, are allowable for existing residences. Wye connections only are allowable for unimproved properties.

3. Treatment Plant Reserve Capacity.

Costs for up to 12 years of reserve capacity for treatment facilities based on the approved flow projection are allowable. Constructed capacity must be consistent with approved environmental documents.

4. Wastewater Facilities Improvements.

Costs for improvements and renovations to existing wastewater facilities necessary to assure continued compliance with Waste Discharge Requirements are allowable.

5. Outfall and Interceptor Reserve Capacity.

Costs for interceptors and outfalls up to the 40 year flow projection for the community are allowable. Pipe capacity must be consistent with approved environmental documents.

6. Required Mitigation Measures.

This category includes the costs to implement reasonable mitigation measures required by a federal, state, or county agency in order to construct the project.

7. Land Required for the Wastewater Treatment Plant and Disposal Facilities.

This category includes only the cost of the land itself. The associated costs (legal, appraisals, administrative, engineering, etc.) involved are considered to be part of the allowance provided. The State's interest in the land must be recorded.

8. Allowances for Engineering and Administrative Services.

This category limits costs for planning, design, construction engineering, prime engineering, and grants administration to the amounts derived from the allowance table in Appendix B.

Excess allowance funds not used in any one step (planning, design, or construction) can only be used to make up any allowance shortfalls in another step.

9. Construction Contingency.

This category provides for a set-aside of grant monies equal to five percent of the estimated allowable construction costs for approvable project cost increases.

10. Permanent Easements for Alternative Systems.

This category includes only the cost of permanent easements or right-of-ways that are required for cost-effective treatment systems. Allowable costs for easements and rights-of-way for new collection systems include only the cost of the land for the lateral from the septic tank to the collection sewer. Associated legal, engineering, and administration costs to acquire the easements and/or rights-of-way are covered by the allowances.

11. Utility Relocation.

This category includes the reasonable costs to relocate utilities necessary for the construction of the project. Utility relocation may be part of the construction contract or may be included in a separate contract with the utility. Utility relocation costs are allowable construction costs. Utility relocation costs will only be paid after award of the construction grant.

H. Connection to the Collection System.

Where a new collection system is funded, the grantee must provide assurance that the existing population will connect to it within a reasonable time after project completion.

A grant condition will be placed in SCGs that will require connection of at least 80 percent of the existing residents and businesses in the health hazard area within two years after initiation of operation of the project.

I. Planning Allowance and Disbursements.

A planning allowance will be paid to partially offset the costs of planning. Appendix B contains a table showing the planning allowance amounts. The amount of the planning allowance will be based on the estimated allowable project construction cost. The planning allowance is determined strictly for purposes of reimbursing a portion of the planning costs. The final total sum of all three grants will be the amount calculated by the formula, 97-1/2 percent of the allowable project costs, or \$2 million, whichever is less. Any planning and design allowances received previously are included in this final amount.

VIII. PLANS AND SPECIFICATIONS

A. Division Review Objectives.

Grantees shall submit engineering plans and specifications (P&S) for wastewater projects to the Division for review during the design phase.

The overall objective of reviewing P&S is to promote cost-effective expenditure of state grant funds as well as local funds. This will be achieved by:

1. Reviewing whether the design will likely meet treatment requirements;
2. Reviewing whether the design allows for efficient operation of the treatment plant;
3. Reviewing whether the design can be constructed using standard techniques; and
4. Considering whether the contract documents appear to meet minimum state competitive bidding requirements.

B. Required P&S Submittals.

At a minimum, three design submittals are required as described below (grantees may request additional design reviews by the Division as needed):

1. Ten Percent (10%) Design Review.

The 10 percent review will include an analysis of the integrity of process design, loading rates on key unit processes, hydraulic capacity of interceptors and collection systems, and the basic plant layout. The Division's written report on the 10 percent review will inform the grantee and its engineer of any concerns involving treatment performance, or operability. This early review should allow the design engineer to make any necessary project changes without extensive redesign.

The grantee must also submit a Report of Waste Discharge at this time to the appropriate Regional Board for adoption of Waste Discharge Requirements.

2. Ninety Percent (90%) Design Review.

The 90 percent design review will occur when both the plans and specifications are substantially complete. The 90 percent design review will analyze what design modifications were made after the 10 percent review, and will comment on the bidability of the P&S relative to state requirements. The Division's report on the 90 percent review will: a) inform the grantee of the allowable portion of the construction costs that can be used in the formula to determine the total state grant amount and what modifications are necessary before the P&S can be advertised for bid; b) authorize the grantee to advertise for bids after any requested modifications are made; c) advise the grantee that the project will be taken to the State Board for approval, unless approval has already been obtained; and d) advise the grantee that the approval of the 90 percent P&S is not a commitment to provide construction grant funding for the project.

3. As-advertised P&S.

The grantee must submit the as-advertised P&S for the Division's review. The review of the as-advertised P&S will determine if all requirements of the 90 percent review have been met. If all requirements have not been met, the Division's design reviewer may request that an addendum be issued to all plan holders, adjust the allowable project cost estimate, or may take such other action as may be appropriate.

C. Design Allowance and Disbursement.

A design allowance will be paid to partially offset the costs of design. Appendix B contains a table for the design allowance. The amount of the design allowance will be based on the engineer's estimated allowable project cost. The total grant amount received for the project is the amount calculated by the formula.

D. Final Revenue Program and Sewer Use Ordinance.

A final Revenue Program and the proposed Sewer Use Ordinance must be submitted to the Division for approval prior to the award of the construction grant. The Final Revenue Program shall contain the grantee's latest estimate of operation and maintenance costs. A proposed rate ordinance must also be submitted at this time.

E. Bonding Requirements.

The contract documents shall require at least the following minimum bonding levels:

- o 100% performance bond
- o 100% labor and materials payment bond
- o 10% bid bond

IX. CONSTRUCTION

A. Construction Grant.

The initial construction grant will be issued after approval of the 90 percent P&S and State Board approval and will be based on the engineer's estimate.

The amount of the final construction grant will be determined by the actual bid costs, the five percent contingency allowance, and the allowance for construction services as determined from the tables in Appendix B. The construction grant will be adjusted to account for the Step 1 (planning) and Step 2 (design) allowances.

The sum of the planning design, and construction grants will be limited to the amount yielded by the formula, $97-1/2$ percent of the allowable costs, or \$2 million, whichever is less.

B. Prevailing Wages.

The grantee must comply with the State prevailing wage laws.

C. Bid Protests.

All bid protests must be resolved by the grantee.

D. Minority Business Enterprise/Womens Business Enterprise (MBE/WBE).

Grantees should make every effort to use MBE/WBE firms in the SCG program.

E. Civil Rights Compliance.

All prime project construction contractors and sub-contractors must certify that they are in compliance with Government Code Section 12990 and California administrative Code, Title II, Division 4, Chapter 5 in matters relating to the development, implementation, and maintenance of a nondiscrimination program.

F. Cultural Resources Protection.

1. Construction contracts shall contain the following requirements:

- a. That the contractor shall cease excavation upon accidental discovery of materials of historic or prehistoric manufacture. (Historic artifacts are defined as items of euro-american manufacture made prior to 1888.)
- b. That if human remains are discovered, all subsurface excavation activities must cease within 100 feet of the discovery and the County Coroner shall be notified within 24 hours of the discovery.
- c. In the event of cultural resources discoveries, the grantee shall contact the Division's Cultural Resources Officer for guidance or, a qualified archaeologist shall be notified and he/she must evaluate the site's significance and make recommendations to the State Historic Preservation Officer before work on the project is allowed to proceed.

G. Pre-Bid Conference.

Grantees shall hold a pre-bid conference and site visit for all prospective bidders to explain any special state and/or federal mandated requirements, and any unusual or significant details. The Division may send a representative to the pre-bid conference. Therefore, the grantee must notify the Division of the time and place of the pre-bid conference at least two weeks prior to the meeting.

H. Pre-Construction Conference.

Grantees shall hold a pre-construction conference with the successful low bid contractor. The purpose of this conference is to introduce key grantee personnel, the construction management organization, the prime contractor, the subcontractors, and the funding agencies. The grantee should discuss lines of communication and areas of responsibilities for the project. If necessary, any requirements to be resolved prior to award of the contract should be discussed. The Division will normally send a representative to the pre-construction conference to discuss construction phase requirements. The grantee must notify the Division of the time and place of the pre-construction conference at least two weeks prior to the meeting.

I. ATA.

The grantee shall be required to submit an ATA package to the Division for review and approval. The Division will issue ATAs within 15 working days from receipt of a complete ATA package.

J. Construction Contract Award.

The grantee shall award the construction contract to the lowest, responsive, responsible bidder after ATA has been given. The grantee may reject all bids when it has a sound basis for doing so.

The construction grant will be amended at ATA to reflect the actual project costs subject to the limitations discussed earlier.

K. Change Orders.

Subject to SCG program grant ceiling restrictions, the construction grant shall include an initial five percent construction contingency to cover eligible construction change orders and construction claims. Change orders should be submitted to the Division for an eligibility decision as soon as practicable. Calculation of the five percent amount will be based on the allowable construction bid amount subject to the total grant limitations in this Policy. The contingency may be raised above the five percent level only for eligible change orders, and/or contractor claims due to differing site conditions documented to the satisfaction of the Division staff. A grant increase to raise the contingency amount over the initial five percent amount will be subject to:

1. Division approval.
2. The statutory ceiling of \$2 million on the total grant amount received;
3. The statutory limitation of 97-1/2 percent of the allowable costs; and
4. The availability of uncommitted SCG funds.

L. Payment Requests.

Grantees may submit grant payment requests monthly during the construction period to minimize cash flow problems. The Division will develop internal procedures for the SCG program to allow issuance of grant payment warrants from the State Controllers Office within 20 working days from receipt of a complete grant payment request.

A final payment request must be submitted within:

1. Ninety days after submittal of the prime engineer's report on the first six months of operation of the project, or
2. Two-hundred and seventy days after initiation of operation of the project, whichever occurs first.

Failure to submit a "final" grant payment request as indicated shall be cause for the Division to proceed with project closeout based on the last payment request on file.

M. Construction Management Reviews.

Division staff will conduct a minimum of two field management reviews, a ten percent review, and a final review during the SCG construction phase. Additional field reviews may be conducted at the discretion of Division staff. The primary purpose of the Division's management reviews is to review and comment on the grantee's compliance with the technical and administrative requirements of the SCG program and to review differing site conditions.

N. Enacted Ordinances.

The enacted sewer use and rate ordinances must be submitted prior to construction being 90 percent complete. Grant payments will be withheld until the ordinances are enacted.

X. PROJECT OPERATION

A. Project Performance Certification.

1. If a wastewater treatment facility is being constructed, the grantee shall hire a prime engineer to direct operation of the new plant, train personnel, and advise the grantee and monitor the plant's performance.
2. At the end of the first six months of operation, the prime engineer shall prepare a brief report analyzing the ability of the facility to meet design discharge requirements. The grantee shall forward the prime engineer's report to the Division with, if necessary, a plan of action for correction of any failure to meet discharge requirements. The SCG will be conditioned to require the grantee, at other than State expense, to correct performance problems identified by the prime engineer's report.

B. Operations and Maintenance (O&M) Manual.

The grantee must submit the following during project construction:

1. A draft O&M Manual at 50 percent completion of construction.
2. An operator duty statement at 50 percent completion of construction.
3. A final O&M Manual at 90 percent completion of construction.

At such time as the grantee fails to meet the above schedule, the Division will withhold progress payments until the required documents are submitted.

XI. RECORD KEEPING REQUIREMENTS

A. Project Accounts.

SCG recipients shall maintain separate project accounts in accordance with accepted government accounting standards. The records must include:

1. A separate account for construction of the project (planning, design, and construction).
2. Accurate, current, and complete accounting of all financial transactions on the project.
3. Records, together with supporting documents showing the source and expenditure of all project funds, including those portions not covered by the SCG.
4. Records showing control and accountability for all project funds, property, and other assets including assurance that all funds are used solely for their authorized purposes.
5. Procedures to ensure prompt disbursements once the payment is received.
6. Procedures to determine and segregate allowable costs.
7. Procedures to separate expenses into cost classifications for grant determinations and disbursements.
8. Provisions for an independent agency audit every two years.

The project may also be audited at any time at the discretion of the Division. Project records must be retained for a minimum of three years after the Division formally notifies the grantee that the project is closed out.

B. Final Project Inspection.

A final project inspection will be conducted by the Division approximately six to eight months after initiation of operations to review project O&M and to check whether or not discharge requirements are being met.

XII. DIVISION ADMINISTRATIVE ASSISTANCE

Small community grantees sometimes lack the needed expertise or capability to manage, construct and operate a treatment facility, including the ability to comply with program requirements.

In these cases, the Division, upon request, will provide project overview and administrative assistance to grantees in the following areas:

- o Compliance with program requirements (accounting, procurement, budgets, project management, etc.).
- o Financial capability to complete the project (the project is affordable, local funding is arranged, adequate funds are available to handle cash flow, contingency funding is available, the grantee has a reasonable expectation to complete the project, etc.).
- o Capability to construct, operate, and maintain the proposed treatment facility.

A. Project Management.

A grantee should assign a Manager for the project. This individual should have the ability to coordinate all project activities (administrative, engineering, and financial) to protect the community's interests, to comply with program requirements, and to keep the project on schedule and within budget if possible. Ideally, the Project Manager should be an employee of the grantee and have some experience in dealing with grants and regulatory agencies. The Project Manager must be other than the Project Engineer.

B. Financial/Management Reviews.

1. The grantee shall provide reasonable assurance that it

has the managerial and financial capability to construct, operate and maintain the proposed facility.

2. The Division will, upon request, provide financial management reviews to assist local officials in carrying out their responsibilities of grant management, account/fiscal management, and compliance with program requirements.

SMALL COMMUNITIES GRANT PROGRAM

REVENUE PROGRAM GUIDELINES

Introduction

These Guidelines are intended to provide assistance to municipalities eligible for state grant assistance for developing, implementing, and maintaining revenue programs and implementing ordinances to comply with State requirements. These guidelines apply to the majority of grantees, however, some grantees will desire to deviate from specific provisions. Deviations should be discussed with the Revenue Program Specialist. These guidelines do not apply to grantees which receive septage or industrial wastes.

The staff of the Division of Loans and Grants (Division) is available to answer inquiries relating to the preparation of revenue programs and implementing ordinances. If questions arise concerning the Division's interpretation of these Guidelines, applicants in accordance with Section 3655-3658 of the State Regulations, may petition the State Water Resources Control Board (Board) for review of the Division's decisions.

Section 1 - General

Section 1-1 - General Requirements

- A. The revenue program is a formally documented determination of a system of User Charges developed by the grantee. It is designed to provide a source of revenue for operation and maintenance (including replacement) of the grantee's wastewater system. In addition, debt service and revenue for establishing a capital reserve fund and an operating reserve fund may be collected by the system of charges based on actual use, or by ad valorem taxes.
- B. A system of service charges is developed first by estimating the annual revenue requirements for the entire system, including those portions which will not be grant funded. Rates are then set based on the identification of the users of the treatment works. This process is described in detail in this Section.
- C. Revenue programs must be submitted by the grantee. Programs submitted by the consultant will not be accepted. The cover letter used to submit the revenue program must include the following information and be signed by the authorized representative:
 1. Grantee's name, address and phone number
 2. Grant number(s)
 3. Purpose of revenue program (proposed or final)

- D. A proposed revenue program and estimated cost of future expansion must be submitted to the Division as part of the Facilities Plan during the planning process. It will be reviewed by the Division and the grantee will be informed of any deficiency in the proposed system of charges.
- E. A final revenue program and proposed (or existing) sewer use ordinance (see Section 3 of this document) must be submitted to the Division prior to award of the construction grant.
- F. A draft of the proposed rate ordinance must be submitted prior to award of the construction grant. An enacted rate ordinance must be submitted prior to 90 percent of construction. The rates in the ordinance must agree with those shown in an approved revenue program. A new revenue program may be required if either construction or O&M costs have changed substantially. The enacted rate ordinance or resolution need not be implemented until the treatment works are placed in operation.
- G. The proposed revenue program may be either separately bound and labeled or included with the facilities plan. If the revenue program is included with the facilities plan, it is the grantee's responsibility to insure that the Revenue Program Specialist receives a copy. The final revenue programs must be separately bound and labeled. One copy must be submitted to the Division for approval.

The revenue program forms contained in Attachment C, if used, will facilitate Division review and approval. In most cases, the form indicates all the information that is necessary for a revenue program.

Section 1-2 - Annual Revenue Requirements

A. Operation and Maintenance (including replacement)

Municipalities need funds to pay the annual costs of operating and maintaining grant funded and non-grant funded treatment works. These costs include the costs of labor, power, chemicals, supplies, laboratory control and monitoring, general administration, billing, and incidental items incurred during normal operation. Also included are those expenditures termed ordinary repairs necessary to keep the facilities in proper operating condition, replacements as defined below and other administrative costs, such as overhead and accounting which are directly related to the operation and maintenance of the treatment works.

An estimate of operation and maintenance costs should be made by adjusting the grantee's latest operating cost data to reflect operational changes, wage escalation, and staffing changes.

B. Replacement Costs

A separate line item for replacement must be shown in the calculation of the annual revenue requirements. Replacement costs include all capital expenditures except:

1. Major rehabilitations which will be needed as individual unit processes near the end of their useful lives.
2. Structural rehabilitations.
3. Facility expansions or upgrades to meet future user demands.

Replacement costs include such items as: pumps, motors, telemetry and electrical controls, air scrubbing equipment, chlorination and dechlorination equipment, vehicles, radios, etc.

Replacement costs should be based, at a minimum, on a five year planning cycle. For example, assume that a grantee estimates it will have to replace \$60,000 worth of equipment over the next five years and it has \$10,000 in the replacement account. The annual replacement cost to be included in the user charge would be $\frac{\$60,000 - \$10,000}{5 \text{ years}} = \$10,000$ per year.

This cost must be calculated each year.

The grantee may, in lieu of the five year replacement plan, deposit an amount in the replacement fund equal to the sum of the straight line depreciation (based on current costs) of the assets (excluding structural facilities such as buildings, ponds, pipes, etc).

C. Debt Service

Debt service is the annual sum of the principal and interest payments on proposed or outstanding obligations secured by bonds or loan contracts.

D. Capital Reserve Fund (optional)

Grantees are encouraged to establish a capital reserve fund to pay for future expansion, improvements, and rehabilitation. These capital reserves usually appear as a separate line item within the annual budget.

E. Operating Reserve Fund (optional)

Grantees are encouraged to establish an operating reserve fund to insure the proper operation of the treatment works. This fund is intended to satisfy costs associated with unanticipated price increases, additional chemical usage, etc. It does not

include costs for replacement of equipment. Wastewater agencies in California normally operate with a reserve equal to between 10 and 50 percent of annual revenue requirements, with most agencies being in the 20 to 40 percent range.

Section 1-3 - Identification of Users

After the annual revenue requirements are determined, the users of the treatment works and their associated wastewater flows must be identified. Flows must be documented for the user groups listed below, in order that proportional costs can be calculated.

- A. Residential Users. Individual cost allocations need not be made for various types of residential users. However, grantees may wish to divide residential users into single-family, multiple family, or mobile home sub-groups to allow for more refined cost allocations.
- B. Commercial Users. Because of great variability in wastewater flow rates, the commercial group should be divided into sub-groups by their water usage. Large commercial users utilizing five percent or more, of plant design capacity must have costs allocated individually.
- C. Institutional Users. Costs may be allocated to individual users or to user groups, such as public or private hospitals, convalescent homes, schools, colleges, correctional facilities, etc.

Section 1-4 - Allocation of Annual Revenue Requirements and Rate Determination

A. Policies Affecting Rate Determination

1. The portion of the annual revenue requirements which constitute the cost of O&M (including replacement) of the treatment works must be recovered from users of the system by means of a user charge system based either on actual use or through an approved ad valorem tax system. The total O&M budget may, however, be offset by income derived from the operation of the wastewater facilities; such as sale of used equipment, sludge, sludge gas, power created by the effluent or from residues, renovated wastewater, farm crops, or other by-products, as well as investment income from wastewater treatment related assets.
2. Grantees may (at their option) adopt reduced (less than proportionate share) rates for low income residential users. Low income users are defined as any user whose income is below the poverty rate established within the sewerage agency's County. These reduced service charges, if used, must be based on an economic consideration only. The

discount may not be applied only to a subgroup under the poverty level (i.e., only to senior citizens).

If the agency decides to adopt a low income discount rate the following rules apply:

- a. The discount rate selected will apply to all users who qualify for the discount.
 - b. Eligibility for the discount must be verified at least annually.
 - c. All revenues which are lost because of the discount must be recovered from other users of the system through increased service charges. The provisions of Section 1-4 A.4. (Public Notice) of these Guidelines apply to the granting of discounted rates.
3. Any preexisting agreements which levy charges for more or less than what would be collected on actual use will not be allowed to continue, and the charges must be revised to reflect actual use.
 4. User charges must recover the cost of operation and maintenance (including replacement) from all users based on their proportionate flow to the total wastewater flow from all users. The Division recommends that user rates designed to recover all other costs be proportional to the cost of the service rendered. Charges for these other revenue requirements may be collected through service charges, ad valorem taxes, or assessments. If they are collected through service charges, and the grantee does not wish to recover the other costs in proportion to system use, public notice describing the impacts of the proposed rate structure is required. An opportunity for public comment within a reasonable period of time prior to final adoption of the rate ordinance by the applicant must be given. Notice shall be given by direct mailing to all organizations and individuals who have previously requested such notice and to all users of the system who will be adversely affected by the change in rates.

The notice must substantially follow the format of the Public Notice Format in attachment B. The applicant may wish to include in the notice a discussion of the facts which prompted the proposed rate ordinance, and the pros and cons of the enactment.

Section 1-5 - Implementation and Maintenance

A. Implementing Ordinances

A grantee's system of charges, as described in the final revenue program, must be incorporated in one or more municipal legislative ordinances or other legally binding requirements.

B. Accounting Systems:

1. Wastewater activities will be accounted for in an Enterprise Fund. An Enterprise Fund is a fund established to account for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
2. If only one fund is used, it will consist of at least two revenue and three expense accounts as follows:

Revenue Accounts

- a. Service Charge Revenue: Only Service Charges, dedicated ad valorem taxes and income generated from the operation of the wastewater facility (see Section 1-4 A.1.) will be deposited to this account. Revenue from this account may be used for any wastewater related activity.
- b. Capital Revenue: All other sources of revenue (i.e., connection charges, augmentation funds, standby fees, nondedicated ad valorem, etc.) will be deposited in this account. Funds from this account may only be used for plant expansion, and major rehabilitations. Operation, maintenance, and replacement costs may not be funded from this account (see Section 1-2 B., of these Guidelines for discussion of replacement costs).

All special districts including County Water, Community Service and Public Utility districts must use the uniform system of accounts prescribed for wastewater disposal districts under Title 2, Division 2, Chapter 2, Sections 1101.1 through 1103.4 of the California Administrative Code. Those agencies not subject to the uniform system of accounts must establish accounting systems for wastewater treatment conveyance, treatment,

and disposal which will provide essentially the same level of detail as the uniform system.

Expense Accounts:

- a. Operation and Maintenance: Designated for the specific purpose of defraying the operation and maintenance costs of wastewater conveyance, treatment, and disposal. These costs must be funded from the service charge revenue account.
- b. Replacement: Designated for the specific purpose of ensuring that replacement funds are available to maintain the capacity and performance of the treatment works over its useful life. This fund does not include money set aside for unexpected price increases which should be accumulated in an operating reserve fund. These costs must be funded from the service charge revenue account.
- c. Capital Expenditures: Designated for any other wastewater related activity not properly included in either the Operations and Maintenance Account or Replacement Account. Either of the above mentioned Revenue Accounts (see 2.a. and 2.b. above) may be used to fund expenditures charged to this account.
- d. Temporary Loaning of Funds:

The above does not preclude the loaning of funds from the wastewater accounts to other uses provided the following conditions are met:

- a. It has been established that these funds will not be required for wastewater activities for the period of the loan.
- b. The loan is recorded in the appropriate account with the pay back period specifically shown.
- c. The source borrowing the money pays at least as much interest as the wastewater fund would have earned if the money had not been loaned.

C. Requirements for Review and Approval

Implementation and maintenance of an approved revenue program is required as a condition of every grant contract. Each grantee must maintain all records which are necessary to document compliance with State Requirements.

The grantee is subject to audit by auditors from the State Controller's Office. Audits may be coordinated with operation and maintenance inspections and audits of other grant conditions.

The grantee shall review and revise its rate structure and ordinances as necessary to reflect actual funding needs of the treatment works. A copy of the review work papers and rate ordinance change, if any, shall be forwarded to the Division's Revenue Program Specialist.

Any time that rates are changed, a copy of the new rate ordinance/resolution shall be submitted to the Division's Revenue Program Specialist for review.

Section 2 - Specific Circumstances

Section 2-1 - Connection Fees

Normally, a portion of the capital costs of a project are recovered from future users through connection fees. If connection fees are not collected because anticipated growth does not occur, the capital costs of the plant must be recovered from the existing users. Because anticipated growth does not always occur, existing users should be informed of these potential costs before commitments are made to fund the project. Accordingly, for treatment works with more than 25 percent of the total treatment plant capacity reserved for future users, an analysis is required of the charges which would be assessed to existing users if anticipated growth does not occur. This analysis must be included in the proposed revenue program.

Connection fees may be used to recover debt service costs which would have been recovered on an annual basis, if the user had been connected when the treatment works began operation. This fee may not be used to recover excessive cost from future users of treatment works in order to reduce charges to current users. Connection fees may not be used to fund replacement costs.

Section 2-2 - Standby Charges

Standby charges may be used to recover debt service from potential users prior to connection, if service is available and the standby charge is proportionate to the available service. Standby charges shall not be charged to properties for which no capacity or insufficient capacity is available.

Section 2-3 - Minimum Charges

If a grantee charges a flat rate for some users and a variable rate (such as water consumption), for others, a minimum charge may be established for the variable rate users to collect the fixed costs of providing service. This charge must not be more than the minimum

charged to any user group which is charged a flat rate. For example, if apartments are charged a flat rate which is less than the single family rate, the minimum charge to customers paying on water consumption would be the rate charged to apartments, not single family residences. The same minimum charge must be applied to all user groups which have a minimum charge, unless it can be shown that fixed costs vary significantly.

Section 2-4 - Ad Valorem Taxes

Unless a grantee has an approved system of ad valorem (A.V.) taxes, operation and maintenance (including replacement) costs must be collected by means of a user charge. To obtain approval of the ad valorem taxes, the grantee must certify that it has a system of ad valorem taxes in place to pay a portion (or all) of operation and maintenance costs. Other costs (debt service, capital reserve, etc.) may be collected via ad valorem taxes. If ad valorem taxes are used for these purposes, the user charge for tax exemption organizations may not be adjusted to recoup these lost taxes (160 Cal Rptr 925; 100 CA 3d547).

Section 3 - Sewer Use Ordinance

The sewer use ordinance or other legally binding document shall prohibit any new connections from inflow sources into the treatment works and require that new sewers and connections to the treatment works are properly designed and constructed. The ordinance or other legally binding document shall also require that all wastewater introduced into the treatment works not contain toxics or other pollutants in amounts or concentrations that endanger public safety and physical integrity of the treatment works; cause violation of effluent of water quality limitations; or preclude the selection of the most cost-effective alternative for wastewater treatment and sludge disposal.

ATTACHMENT A
DEFINITIONS

As used in these Guidelines, the following words and terms shall have the meaning as set forth below:

Ad Valorem Tax: A tax based upon the value of real property.

Applicant: A municipality which has applied for a loan.

CAC: California Administrative Code

Capital Costs: Costs of major rehabilitation, expansion or upgrading required as facilities reach the end of their useful life.

CFR: Code of Federal Regulations

Combined Sewer: Sewage - storm or industrial - storm drain combination

Commercial User: All retail stores, restaurants, office buildings, laundries, and other private business and service establishments, including churches and lodges.

Connection Fee: A fee paid by a new system user for the capital costs of capacity made available for its use.

Construction: The planning, designing, and construction of any treatment works.

Division: The Division of Clean Water Programs of the State Water Resources Control Board.

Financial Plan: A description of the proposed institutional arrangements that will be used to manage the project, and of the amount and sources of funds necessary to finance the grantee's share of the project cost and to provide for cash flow during the design and construction periods.

Future Capacity: Available treatment works capacity which is not needed to serve existing users.

Industrial User: Any nongovernmental nonresidential user of publicly owned treatment works which is identified in the Standard Industrial Classification Manual, 1972, Office of Management and Budget, as amended and supplemented, under the following division:

- a. Division A - Agriculture, Forestry, and Fishing;
- b. Division B - Mining;
- c. Division D - Manufacturing;

- d. Division E - Transportation, Communications, Electric, Gas, and sanitary;
- e. Division I - Services.

A user in the Divisions listed may be excluded if it is determined that the user will introduce primarily segregated domestic waste or wastes from sanitary conveniences.

Infiltration: Water other than wastewater that enters a sewer system (including sewer service connections and foundation drains) from the ground through such means as defective pipes, pipe joints, connections, or manholes. Infiltration does not include, and is distinguished from, inflow.

Inflow: Water other than wastewater that enters a sewer system (including sewer service connections) from sources such as, but not limited to, roof leaders, cellar drains, yard drains, area drains, drains from springs and swampy areas, manhole covers, cross connections between storm sewers and sanitary sewers, catch basins, cooling towers, storm waters, surface runoff, street wash waters, or drainage. Inflow does not include, and is distinguished from, infiltration.

Project: The scope of work for which assistance is awarded by a grant or grant amendment.

Rehabilitation: Extraordinary expenditures for obtaining and installing equipment, accessories, or appurtenances which extend the service life and/or improve the capacity or efficiency of the treatment works as originally designed. Rehabilitation costs are considered capital outlays.

Replacement: Expenditures for obtaining and installing equipment, accessories, or appurtenances which are necessary during the service life of the treatment works to maintain the capacity and performance for which such works were designed and constructed. The term "operation and maintenance" (O&M) includes replacement.

Revenue Program: A formal documentation of charges designed to provide revenues for operation and maintenance (including replacement), and local debt service for treatment works, and which demonstrates compliance with grant conditions on user charges.

Service Charge: A charge levied on a user of the treatment works which includes a user charge to recover the costs of operation and maintenance (including replacement) and which may include a charge for capital reserve and debt service.

Treatment Works: Any devices and systems used in collecting, storage, treatment, recycling, and reclamation of municipal sewage or industrial wastes of liquid nature, or necessary to recycle to reuse water at the most economical cost over the useful life of works.

User: A recipient of wastewater treatment services as described in the definition of "Treatment Works".

User Charge: A charge levied on users of a treatment works for the cost of operation and maintenance, including replacement.

PUBLIC NOTICE FORMAT

NOTICE OF PROPOSED CHANGE IN WASTEWATER TREATMENT RATES

The City Council of the City of Springvale is considering a rate ordinance for wastewater treatment which provides that capital costs will not be recovered in proportion to system use. The effect of the ordinance is to reduce costs to industrial and commercial users with a corresponding increase in the rates to residential users.

The following table shows the rates proposed to be charged typical users in the industrial, commercial, and residential categories using the proposed rate structure. The table compares these rates with what they would be if they were calculated in proportion to system use.

PROPOSED MONTHLY CHARGES

<u>TYPE OF USER</u>	<u>PROPOSED RATE STRUCTURE</u>	<u>PROPORTION TO USE</u>	<u>DIFFERENCE</u>
Largest Industrial user	\$1,500	\$2000	-\$500
Typical Industrial User	\$ 750	\$1,000	-\$250
Typical Commercial User	\$ 300	\$ 400	-\$100
Typical Residential User	\$ 9	\$ 7	+\$ 2

The City Council invites you to attend and participate in a public discussion of this proposed ordinance. It will be held:

Date:

Time:

Place:

Any comments which are received by the City Council prior to this date will also be considered.

(A discussion of the facts which prompted the proposed rate ordinance and the pros and cons of its enactment may be inserted here or included on a separate sheet of paper).

BUDGET INFORMATION

SECTION I (MANDATORY)

Wages and Salaries	
Benefits	
Utilities	
Supplies	
Contract Services	
Maintenance	
Replacement	
Insurance	
Fuel and Oil	
Insurance	
Taxes	
Administration	
Other	
Subtotal	
Less: Operating Income	
Approved ad valorem (1)	
Operating Income (2)	
TOTAL (3)	

ATTACHMENT C

BUDGET INFORMATION

SECTION II (OPTIONAL)

CATEGORY	FIRST YEAR OF OPERATIONS
Depreciation	
Debt Service	
Capital Reserve	
Operating Reserve	
Other	
Subtotal	
Less: Other Income	
Nonapproved ad valorem Taxes	
Connection Fees (4) Attributable to Debt Service	
Transfers from Other Funds	
TOTAL Section II	
TOTAL SECTION I	
TOTAL (5)	

1. See Section 2-4
2. See Section 1-4 A 1
3. User Charges must recoup at least this amount of revenue.
4. See Section 2-1
5. To Column 5, Section 3 "Total"

APPENDIX B

Allowance Table

ALLOWABLE CONST. COST	PLANNING PHASE -		DESIGN PHASE -		CONSTRUCTION PHASE			TOTAL		TOTAL		TOTAL	
	ENGR & TECH	GRANTS ADMIN	ENGR & TECH	GRANTS ADMIN	ENGR & TECH	GRANTS ADMIN	PRIME ENGR.	TECHNICAL ALLOW	PERCENT CONST.	ADMIN ALLOW	PERCENT CONST.	TOTAL ALLOW.	PERCENT CONST.
\$100,000	\$11,090	\$2,218	\$8,805	\$1,761	\$12,178	\$2,948	\$2,561	\$34,634	34.63%	\$6,927	6.93%	\$41,561	41.56%
\$200,000	\$15,848	\$3,011	\$17,192	\$3,267	\$23,326	\$4,939	\$2,669	\$59,035	29.52%	\$11,217	5.61%	\$70,252	35.13%
\$300,000	\$19,506	\$3,511	\$25,182	\$4,533	\$33,524	\$6,534	\$2,777	\$80,989	27.00%	\$14,578	4.85%	\$95,567	31.86%
\$400,000	\$22,600	\$3,842	\$32,803	\$5,576	\$43,526	\$7,800	\$2,805	\$101,814	25.45%	\$17,308	4.33%	\$119,122	29.78%
\$500,000	\$24,408	\$3,905	\$40,075	\$6,412	\$54,070	\$9,130	\$2,993	\$121,546	24.31%	\$19,447	3.89%	\$140,993	28.20%
\$600,000	\$27,843	\$4,176	\$47,039	\$7,056	\$62,590	\$9,854	\$3,101	\$140,573	23.43%	\$21,006	3.51%	\$161,579	26.04%
\$700,000	\$30,093	\$4,213	\$53,694	\$7,517	\$71,997	\$10,529	\$3,208	\$158,992	22.71%	\$22,259	3.18%	\$181,251	25.89%
\$800,000	\$32,223	\$4,253	\$60,074	\$7,930	\$81,319	\$11,172	\$3,316	\$176,932	22.12%	\$23,355	2.92%	\$200,287	25.04%
\$900,000	\$34,217	\$4,277	\$66,170	\$8,271	\$90,615	\$11,755	\$3,424	\$194,426	21.60%	\$24,303	2.70%	\$218,729	24.30%
\$1,000,000	\$36,116	\$4,334	\$72,044	\$8,615	\$99,903	\$12,412	\$3,532	\$211,595	21.16%	\$25,391	2.54%	\$236,986	23.70%
\$1,200,000	\$39,652	\$4,362	\$83,103	\$9,141	\$118,498	\$13,447	\$3,748	\$245,001	20.42%	\$26,950	2.25%	\$271,951	22.86%
\$1,400,000	\$42,905	\$4,376	\$93,316	\$9,518	\$137,168	\$14,395	\$3,964	\$277,353	19.81%	\$28,290	2.02%	\$305,643	21.83%
\$1,600,000	\$45,943	\$4,411	\$102,814	\$9,870	\$155,935	\$15,371	\$4,180	\$308,872	19.30%	\$29,652	1.85%	\$338,524	21.16%
\$1,800,000	\$48,794	\$4,440	\$111,629	\$10,158	\$174,817	\$16,308	\$4,396	\$339,636	18.87%	\$30,907	1.72%	\$370,543	20.59%
\$2,000,000	\$51,496	\$4,480	\$119,853	\$10,427	\$193,806	\$17,263	\$4,612	\$369,767	18.49%	\$32,170	1.61%	\$401,937	20.10%
\$2,500,000	\$57,728	\$4,503	\$138,201	\$10,760	\$241,718	\$19,256	\$5,152	\$442,799	17.71%	\$34,538	1.38%	\$477,337	19.09%
\$3,000,000	\$63,074	\$4,563	\$153,906	\$11,081	\$290,154	\$21,301	\$5,692	\$513,126	17.10%	\$36,945	1.23%	\$550,071	18.34%
\$4,000,000	\$73,425	\$4,626	\$179,373	\$11,300	\$368,051	\$24,874	\$6,772	\$647,621	16.19%	\$40,000	1.02%	\$688,421	17.21%
\$5,000,000	\$82,289	\$4,937	\$199,060	\$11,644	\$486,800	\$29,867	\$7,850	\$775,709	15.52%	\$46,548	0.83%	\$822,347	16.45%
\$6,000,000	\$90,340	\$5,420	\$214,737	\$12,084	\$595,342	\$35,856	\$9,932	\$999,351	14.99%	\$53,961	0.60%	\$953,312	15.80%

* If a previous planning and/or design allowance or grant awarded, subtract the amount from the allowance shown above.

Interpolate between values

Allowance funds not used in any one phase (planning, design, or construction) can be used to make up shortfalls in another phase.