

**STATE WATER RESOURCES CONTROL BOARD  
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE  
JUNE 21, 2016**

**ITEM 8**

**SUBJECT**

DRINKING WATER STATE REVOLVING FUND ANNUAL REPORT FOR STATE FISCAL YEAR 2014/2015

**DISCUSSION**

The State Water Resources Control Board (State Water Board) administers California's Drinking Water State Revolving Fund (DWSRF) Program through the Division of Financial Assistance (DFA). The DWSRF is capitalized with federal and state funds. It provides affordable financing for Public Water Systems, including infrastructure projects that address public health risk problems, are needed to achieve or maintain compliance with the Safe Drinking Water Act (SDWA) requirements, and to further the public health objectives of the SDWA. California's DWSRF has supported the health, safety, and welfare of Californians since 1996 by financing 379 eligible projects for approximately \$2.04 billion. Many DWSRF recipients use their financing to address drinking water quality and capacity issues, typically in response to compliance orders and enforcement actions by the Division of Drinking Water. Every project financed by the DWSRF is directly related to improving drinking water quality and public health.

This annual update of the DWSRF Program provides results for State Fiscal Year (SFY) 2014/2015, ending June 30, 2015, and discusses recent and future developments in the Program.

**A. FINANCIAL RESULTS**

**1. Cumulative Financial Results**

As of June 30, 2015, approximately eighty (80) percent of all available project funds had been disbursed or expended and eighty eight (88) percent of all available set-aside funds had been disbursed or expended. DWSRF also has, as of June 30, 2015, approximately \$1 billion in loan receivables. In SFY 2014/15, approximately eighty eight (88) percent of DWSRF financing was provided for drinking water treatment, five (5) percent was provided for distribution projects, five (5) percent went towards planning and two (2) percent went towards source and storage projects. Since inception, DWSRF has financed about \$1.50 in projects for every \$1 of capital contributed by the U.S. Environmental Protection Agency (U.S. EPA).

A DWSRF capitalization grant requirement, set by U.S. EPA, is to provide 15 percent of cumulative available DWSRF funds to small water systems to the extent that such projects are ready to proceed. DFA provided \$10.8 million in DWSRF assistance to small water systems in SFY 2014-15, totaling \$294.3 million over the life of the program (approximately 13.3 percent). Similar to SFY 2013-14, the DWSRF program awarded over 80 percent of all funding agreements to small water systems.

Another DWSRF capitalization grant requirement, set by U.S. EPA, is to provide

20-30 percent of the 2014 Capitalization Grant as additional subsidy to DWSRF recipients. The State Water Board provided \$13,912,066 in principal forgiveness to DWSRF funding recipients, including additional principal forgiveness to prior year funding recipients. It assigned the principal forgiveness to available additional subsidy authority for prior year Capitalization Grants as well as the 2014 Capitalization Grant. As a result, approximately 14 percent of the 2014 Capitalization Grant was committed as additional subsidy to eligible recipients in SFY 2014-15. The State Water Board intends to commit the remaining 16 percent of the 2014 Capitalization Grant as additional subsidy in SFY 2015-16.

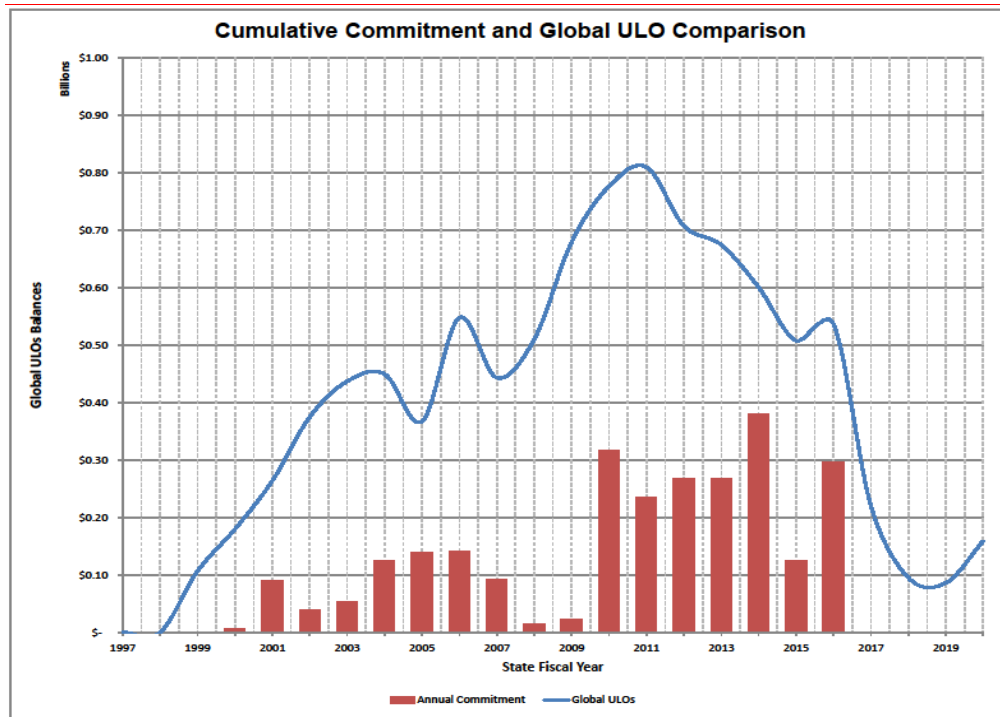
**Figure 1  
Additional Subsidy Totals 2010 -2014 Capitalization Grant Years**

<b>Additional Subsidization Funding</b>				
<b>Federal Fiscal Year Grant</b>	<b>Minimum Principal Forgiveness By FFY Grant Agreement</b>	<b>Maximum Principal Forgiveness By FFY Grant Agreement*</b>	<b>Principal Forgiveness Disbursed</b>	<b>Amount Committed</b>
2010	\$38,087,400.00	\$38,087,400.00	\$30,829,903.22	\$38,087,400.00
2011	\$26,009,400.00	\$26,009,400.00	\$8,896,222.46	\$26,009,400.00
2012	\$17,071,600.00	\$25,607,400.00	\$4,530,939.94	\$25,607,400.00
2013	\$15,754,000.00	\$23,631,000.00	\$884,060.53	\$23,631,000.00
2014	\$16,704,200.00	\$25,056,300.00	\$0.00	\$11,716,085.75
<b>Totals</b>	<b>\$113,626,600.00</b>	<b>\$138,391,500.00</b>	<b>\$45,141,126.15</b>	<b>\$125,051,285.75</b>
* DWSRF federal regulations require that no more than 30 percent of a DWSRF Capitalization Grant may be awarded as additional subsidy.				

## 2. Cash Flow Management

The DWSRF's federal cash balance decreased from \$455 million to approximately \$174.9 million over the past two years. The decreasing federal cash levels are an indication that DWSRF funds are being used expeditiously to support California's drinking water infrastructure need to provide the public with reliable and safe drinking water. The DWSRF Program's current spending rate meets the new federal drawdown rules in which no more than two capitalization grants are to remain open at any one time, resulting in a federal cash balance not to exceed the average of two annual capitalization grants.

**Figure 2**  
**DWSRF Annual Commitments vs Global Unliquidated Obligation (ULO)**



### 3. Financial Activity

A total of \$118 million was financed in SFY 2014/2015. Collectively, DWSRF recipients received approximately \$13.9 million in subsidy in the form of principal forgiveness.

Approximately \$215 million was disbursed to recipients during SFY 2014/2015. This included approximately \$17.3 million in principal forgiveness.

Financing activity during SFY 2014/2015 increased the DWSRF outstanding commitment level to approximately \$1 billion.

Table 1 below provides the DWSRF's performance measure results for the year.

**Table 1  
Performance Results for DWSRF by SFY**

<b>Measure</b>	<b>Target</b>	<b>12/13</b>	<b>13/14</b>	<b>14/15</b>	<b>*15/16</b>
% Complete Construction Applications Financed ≤ 9 Months	95%	33%	44%	40%	10%
% Complete Planning Applications Financed ≤ 9 Months	95%	0%	14.3%	0%	10%
% of Complete Disbursements Filled ≤ 30 Days	100%	14.7%	8.4%	21.9%	74.8%
Disbursement Request Volume	N/A	327	367	512	322

*\*SFY 2015/16 data represents July 1, 2015 through April 1, 2016 timeframe*

**4. Notice of Non-Compliance and Corrective Action Plan (CAP)**

On April 19, 2013, the U.S. EPA issued a Notice of Non-Compliance to California Department of Public Health (CDPH), the department formerly with primacy over the DWSRF program, in accordance with the U.S. EPA grant regulation 40 CFR §35.3585. U.S. EPA determined that CDPH “had not timely and efficiently committed and expended funds in the DWSRF, nor employed adequate financial resources to operate the DWSRF in a sound financial manner...” Per the Notice of Non-Compliance, on July 12, 2013, CDPH submitted to U.S. EPA a Corrective Action Plan (CAP), which the U.S. EPA approved on July 23, 2013.

On July 1, 2014, the State Water Board assumed primacy over the DWSRF program and the CAP and satisfied all but one CAP requirement scheduled for completion in SFY 2014-15.

All CAP items with the exception of CAP Item 22 have been met by their deadlines. In a letter to U.S. EPA Region IX, dated June 1, 2015, the State Water Board explained that it would not fulfill the requirements of CAP Item 22 by its deadline due to a shortfall in

project disbursements. The State Water Board further noted that it would satisfy the requirement no later than January 1, 2016.

In October 2015, the State Water Board surpassed the cumulative disbursement target of \$621 million for the period of July 1, 2012 to October 1, 2015.

U.S. EPA issued a letter dated May 17, 2016, closing out the CAP and recognized California DWSRF program has returned to compliance, a month and a half ahead of the required June 30, 2016, deadline.

## 5. Audited Financial Statements

The DWSRF's [financial statements for SFY 2014/2015](#) were independently audited. The audit for SFY 2014/2015 was completed by CliftonLarsonAllen LLP on October 7, 2015. CliftonLarsonAllen provided the following opinion regarding the financial statements of the DWSRF:

*In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Safe Drinking Water Revolving Fund as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.*

## B. PROGRAM RESULTS

### 1. Assistance Activity

A total of \$117,810,310 in new DWSRF funding agreements were entered into in SFY 2014-15. Funds are provided to enhance drinking water treatment, distribution, storage, meters, ensure water systems improve reliability with interties, and the consolidation of systems. Due to a fourth year of severe drought in California, both water quantity and quality issues were addressed by DWSRF projects in SFY 2014-15 as groundwater and surface water continued to diminish. Water quality issues such as arsenic, nitrate, groundwater under direct influence, and disinfection by-product formation continue to be addressed.

In recent years, the State Water Board has made a concerted effort to address SDWA compliance by small, disadvantaged communities. The DWSRF plays an important role in this effort by providing Technical Assistance, principal forgiveness, and reduced interest rates to lower financing costs for small, disadvantaged communities. Sixteen of the twenty-four agreements executed during SFY 2014/2015 were with communities meeting the definition of a small, disadvantaged community. During SFY 2014/2015, the State Water Board provided \$7.5 million in DWSRF principal forgiveness to small, disadvantaged communities.

### 2. Public Health Benefits

The contributions of the DWSRF program to water quality are diverse. The program has the strength and versatility to address a wide range of water-quality issues. To the maximum extent possible, priority is given to projects which address the most serious

risks to human health, are necessary to ensure compliance with SDWA requirements, and assist water systems in need the most on a per household basis.

Each project funded in SFY 2014/2015 was evaluated to determine its benefits and the data supporting this analysis has been transmitted to U.S. EPA via the DWSRF Project Benefits Reporting database.

Table 2 below provides the DWSRF funding by category during SFY 2014/2015.

**Table 2  
DWSRF Funding by Category**

Category	Amount	Percentage
Treatment	\$104,245,875	88%
Transmission and Distribution Pipelines	\$6,062,167	5%
Planning and Design Only	\$5,486,000	5%
Source Reliability	\$1,224,268	1%
Storage	\$792,000	1%
<b>Total Financed</b>	<b>\$117,810,310</b>	<b>100%</b>

### C. NOTEWORTHY EFFORTS AND ACTIVITIES

#### 1. Proposition 1 – 2014 Water Bond

Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act of 2014, was approved by California’s voters on November 4, 2014. It authorized \$7.545 billion in general obligation bonds for water related projects. In particular, it provides \$260 million for drinking water grants and loans for public water system infrastructure improvements and related actions to meet safe drinking water standards, ensure affordable drinking water, or both. DFA is coordinating Proposition 1 funding appropriated to the State Water Board with the DWSRF funds to achieve the best outcomes with all available funding sources.

#### 2. Program Improvements

On July 1, 2014, California’s Drinking Water Program, including the DWSRF and associated state financing programs, were reorganized and transferred from CDPH to the State Water Board through the 2014-15 California Budget Act. The DWSRF program was transferred to DFA so both the DWSRF and existing CWSRF programs could be jointly administered.

To provide greater funding flexibility and efficiency for the DWSRF program, the State Water Board adopted a new DWSRF Policy on October 21, 2014, which established a more concise project prioritization plan, project selection process, as well as enabled certain DWSRF funding rules such as project additional subsidy amounts and certain loan terms, to be established annually within the IUP. The DWSRF Policy also removed prior limitations on project funding amounts and established a new and more efficient application process. All DWSRF eligible projects may apply for funding via Financial

Assistance Application Submittal Tool (FAAST) anytime projects are ready to proceed to planning or construction.

DFA focused on implementing process improvements and procedural changes in SFY 2014-15, making the DWSRF program more efficient and leading to increased demand. Such process improvements for the DWSRF program included the establishment of Project Managers, who are the single point of contact for applicants. These Project Managers are centrally located technical staff assigned to manage funding projects from application to close-out.

The accounting and financial records of the CDPH-DWSRF were transferred into the SWRCB Loans and Grant Tracking System (LGTS) and substantially reconciled in SFY 2014-15.

**POLICY ISSUE**

None at this time; informational item

**FISCAL IMPACT**

None at this time; informational item

**REGIONAL BOARD IMPACT**

None at this time; informational item

**STAFF RECOMMENDATION**

None at this time; informational item

State Water Board action on this item will assist the Water Boards in reaching Goal 5 of the *Strategic Plan Update: 2008-2012* to improve transparency and accountability by ensuring that the Water Boards' goals and actions are clear and accessible, by demonstrating and explaining results achieved with respect to the goals and resources available, by enhancing and improving accessibility of data and information, and by encouraging the creation of organizations or cooperative agreements that advance this goal.