



March 8, 2012

Mr. Charlie Hoppin  
State Water Resources Control Board  
1001 I Street, 24th Floor  
Sacramento, CA 95814



RE: 2012 Clean Water State Revolving Fund Intended Use Plan

Dear Chairman Hoppin:

On behalf of our respective organizations, we would like to express our deep appreciation for all your staff has done over the past few years to create a framework to assist small disadvantaged communities in meeting their wastewater infrastructure needs. The changes made to the Clean Water State Revolving Fund (CWSRF) – zero interest loans and extended term financing – have improved access to disadvantaged communities (DACs). The availability of principal forgiveness funding through the Capitalization Grants has provided greater access to disadvantaged communities.

While all of the actions outlined in the plan are encouraging, we remain concerned that there are still barriers that limit disadvantaged communities from accessing these funds. Below we have outlined some recommendations in effort to improve the CWSRF's ability to address the needs of small disadvantaged communities.

Criteria for funding, especially preferences for "As ready" projects is detrimental to small and disadvantaged communities.

The Intended Use Plan (IUP) states that the CWSRF Policy establishes funding priorities based on public health and water quality factors as well as “on an as-ready basis.” The preference for funding projects “on as ready basis” negatively impacts the ability of small, disadvantaged communities from accessing necessary funds due to the lack of technical assistance and financial resources available get projects to a "ready to proceed" stage in disadvantaged communities and continues to perpetuate decades of lack of investment in such communities, exacerbating existing wastewater management deficiencies. This undermines several of the stated goals of the CWSRF program including the goal to reduce or eliminate the disproportionate impacts of pollution on low-income and minority populations.

While we understand that this practice, to some extent, reflects the fact that the demand and cash flow of the CWSRF are evenly matched, it is not a useful measurement for the achievement of the goals of the Fund. The success of the CWSRF in addressing the critical wastewater needs of small and disadvantaged communities can only be assessed by understanding the outcomes of past efforts. We recommend a different measure – specifically, an annual review of the status of

the top 50 projects on the Small Community Wastewater Grant priority list, indicating how many have received technical assistance, planning or construction funding, and how many projects have been completed. To accomplish this, the CWSRF should allocate more resources - in the form of technical assistance and pre construction funds - to small and disadvantaged communities. Furthermore, should the Priority List become competitive, the status of a community as a small and / or low-income disadvantaged community with actual or potential public health hazards due to inadequate wastewater management, should be included as a criteria for placement and prioritization on the Project Priority List (PPL).

### Prioritization of Disadvantaged Communities

#### *Most Beneficial Projects should include investment in DACs*

Despite the clear and critical need for technical assistance, pre-construction and construction funding to improve water quality and public health in small and disadvantaged communities, the IUP's stated outcome and measurement under the heading "Fund the Most Beneficial Projects" does not include investment in disadvantaged communities as among the most beneficial projects. We suggest the addition of a bullet 5; "Promote short and long term investment through the SRF in disadvantaged communities impacted by pollution and water contamination."

#### *At least 25% of projects must assist DACs*

"Performance Measurements" under the "Well-Known and Respected Products" indicates key program objectives and activities including funding projects in disadvantaged communities and providing critical trainings. One stated performance measure is that at least 25% of projects should assist disadvantaged communities.

To ensure that at least 25% of projects assist disadvantaged communities, the Board should:

- (a) conduct at least one application training workshop per year, per regional water board, specifically targeting small and disadvantaged communities;
- (b) increase the percentage of loan financing as extended term financing;
- (c) relax local match requirements of funding of projects in disadvantaged communities;
- (d) effectively target the grant and principal forgiveness (PF) to those communities most in need of grant funding and PF (see below);
- (e) include preferences for projects that assist disadvantaged communities even if the applicant is not a disadvantaged community; and
- (f) relax the limitation on how much funding an agency can receive per year if an agency is targeting its CWSRF funds to assist disadvantaged communities.

### Targeting Principal Forgiveness and Small Community Grant Assistance

Principal Forgiveness and grant funds are critical to ensuring that needed projects are accessible and affordable in small, disadvantaged and severely disadvantaged communities, including "Polanco parks" and other mobile home parks. As such, those funds could better target communities that simply cannot address wastewater needs without 100% PF and grant funds. The State Water Resources Control Board (SWRCB) should allocate a higher percentage of principal forgiveness (PF) and Small Community Grant funds to small severely disadvantaged communities. A recommendation would be that there be an increase to the share of total available PF allotted to projects in Category 1 of Table 4 from 60 percent to 75 percent.

Currently, many small severely disadvantaged communities are unsewered. We recommend targeting more affordable funding to these communities, which are often in rural and much more

remote areas. Towards that end, we support Draft IUP Table 4, Category 1, Exceptions: (v) which states,

“For projects that connect previously unsewered areas or join communities to create or broaden a regional wastewater or storm water works, consistent with the CWSRF Policy’s sustainability provisions, if the community that will be served by the project does not have wastewater rates and charges in place, but would otherwise qualify for “Category 1a,” that community may receive 100 percent of eligible planning costs, not to exceed \$500,000 in PF/Grants, for planning activities.”

In addition, these communities need assistance in obtaining affordable construction funding due to the distance to existing sewer systems, difficulty in developing new waste water treatment plan (WWTP) sites (when consolidation is not an option), additional costs of abandoning existing septic systems and connecting homes to new community sewer systems, and payment of capacity fees to existing systems.

Generally, many of the previously unsewered areas will have higher operation and maintenance costs per user due to longer collection systems per user; pumping costs to regional WWTP or expense of operating a new WWTP due to lack of certified operators in rural areas; and the distance between WWTP that contract operators must serve. In effort to address these challenges, we recommend amending Table 4 Footnote 5 as follows:

“Rates as a percentage of MHI are used to demonstrate a community’s investment in water quality. For wastewater projects, ~~only~~ wastewater rates and related loan fees, taxes and the 1%, 20 year amortization of the average costs\* of abandoning the septic system and connection of an unsewered home, will be used to calculate the community’s rates as a percentage of MHI. For other types of water quality improvement projects, wastewater rates plus storm water rates, if applicable, may be used to calculate the community’s rate as a percentage of MHI. Projects qualifying in Category 1.b must receive approval from the State Water Board, and are not eligible for the SCG Fund.”

\*Based on USDA 504 Program

\*\*Using a documented average cost for septic system abandonment and connection as approved by State staff.

### Technical Assistance needs

Many small, disadvantaged communities do not and cannot access SRF funds because there is insufficient technical assistance and outreach targeting these communities. The only mention in the IUP of technical assistance to disadvantaged communities is on page 7, where there is a discussion of \$1.2 million budgeted for various contracted services, including “outside contractor to provide technical assistance to small, disadvantaged communities” but no discreet allocation for such technical assistance. Furthermore, of the 55 person years (PY) budgeted for the CWSRF program, there are no PYs allocated for technical assistance or outreach to DACs. Finally, in the IUP's discussion of marketing and outreach activities (page 20) there is no indication that these efforts will be directed towards small, disadvantaged communities, those communities most in need of targeted outreach and technical assistance.

To address the importance of including adequate technical resources and targeted outreach, the IUP should:

- (a) accurately assess the need for technical assistance resources in all regions and areas of the state, including the San Joaquin Valley and the East Coachella Valley and allocate a sufficient amount of funds for technical assistance providers;
- (b) identify some percentage of the 55 PYs for technical assistance and outreach to small and disadvantaged communities;
- (c) articulate marketing and outreach strategy that will increase applications to the CWSRF program from small and disadvantaged communities.

The CWSRF is increasingly the only funding available for disadvantaged communities that can help address the critical wastewater and storm water drainage needs. By targeting more outreach and technical assistance, extended term financing, principal forgiveness and grants, and funding for preconstruction activities the CWSRF can continue making significant strides in creating healthier and more sustainable communities throughout California.

We appreciate the commitment the Board and staff have demonstrated over the years in addressing the needs in small disadvantaged communities.

Sincerely,



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