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Arnold Schwarzenegger
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TO: Dorothy Rice
Executive Director

FROM: Gerald Homer
Economist

DATE: July 1, 2009

**SUBJECT: IDENTIFICATION OF GUALALA COMMUNITY SERVICES DISTRICT
POTW AS A SMALL COMMUNITY WITH A FINANCIAL HARDSHIP**

On June 15, 2009, Assistant Executive Officer, Luis Rivera, North Coast Regional Water Quality Control Board, requested a determination whether the Gualala Community Services District (District) qualifies as a small community with a financial hardship. Based on the analysis described below, the Gualala Community Services District cannot be considered a POTW serving a small community with a financial hardship.

California Water Code Section 13385(k)(2) defines a "publicly owned treatment works serving a small community" as

"A publicly owned treatment works serving a population of 10,000 persons or fewer or a rural county, with a financial hardship as determined by the state board after considering such factors as median income of the residents, rate of unemployment, or low population density in the service area of the publicly owned treatment works."

Determining whether a publicly owned treatment works (POTW) is "serving a small community" entails two separate determinations: (1) if the POTW is either situated within a rural county or has a population of 10,000 or less; and (2) if the POTW's service area has a "financial hardship."

1. Rural County/Population Cap

The District is located in Mendocino County. The first question is if Mendocino County is a "rural county." The State Water Board's Water Quality Enforcement Policy (Enforcement Policy) defines a "rural county" as a county classified by the Economic Research Service, United States Department of Agriculture (ERS, USDA) with a rural-urban continuum code of four through nine.

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Mendocino County has a rural-urban continuum code of four and, therefore, does fall within the "rural county" classification. The District service area has a population of 1,890¹, which also meets the population criterion.

2. Financial Hardship

The Enforcement Policy considers the median household income of the service area served in determining financial hardship. The Enforcement Policy's discussion on financial hardship predates the amendment of Section 13385(k)(2), however. Prior to the amendment, the law provided no guidance on how to evaluate financial hardship, only that the finding would be "as determined by the state board" (Water Code, Section 79084). Operating under that open-ended mandate, the State Water Board defined "financial hardship" in the Enforcement Policy in terms of median household income (MHI).

The subsequent amendment of Section 13385(k)(2) suggested additional factors (rate of unemployment and low population density) beyond MHI for the State Water Board to consider. The amendment did not purport to dictate an exclusive list, leaving the final determination of which factors to consider and what weight to give each of them entirely up to the State Water Board's discretion. Nevertheless, by identifying the additional factors, the amendment strongly suggests that the State Water Board look beyond median household income when determining financial hardship.

With that backdrop in mind, we in the Office of Research, Planning, and Performance have reconsidered the approach for determining financial hardship. While we decided to continue to use median household income as a factor, we also developed additional criteria for assessing whether a POTW serves a small community with a "financial hardship." The full list of criteria we considered is:

1. Median household income (the MHI divides the income distribution into two equal groups, one having incomes above the median, and the other having incomes below the median) for the community is less than 80 percent of the California MHI²;
2. The community has an unemployment rate of 10 percent or greater (All civilians 16 years old and over are classified as unemployed if they (1) were neither "at work" nor "with a job but not at work" during the reference week, and (2) were actively looking for work during the last four weeks, and (3) were available to accept a job. Also included as unemployed are civilians who did

¹ Based on US Census Blockgroup 060450111003 data for the year 2000.

² In 2000, California MHI was \$47,493; 80 percent of that is \$37,994.

not work at all during the reference week, were waiting to be called back to a job from which they had been laid off, and were available for work except for temporary illness. The 10 percent criterion is similar to the 150 percent of the national unemployment rate used by some federal agencies in defining economically distressed communities. The national employment rate varies between five to six percent, and 150 percent of that amount is seven and a half to nine percent.); or

3. Twenty percent (20 percent) of the population is below the poverty level (Following the Office of Management and Budget's (OMB's) Directive 14, the Census Bureau uses a set of money income thresholds that vary by family size and composition to detect who is poor. If the total income for a family or unrelated individual falls below the relevant poverty threshold, then the family or unrelated individual is classified as being "below the poverty level." The 20 percent threshold is used by some federal agencies in determining economically distressed communities).

The District is located completely within US Census Blockgroup 060450111003. The Blockgroup data for the year 2000 indicates an MHI of \$45,991, an unemployment rate of 4 percent, and a poverty rate of 3.4 percent. None of these factors for the District meet the criteria for a small community with a financial hardship.

Please contact me at (916) 341-5279 or by email (ghorner@waterboards.ca.gov) should you have questions or concerns.

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Recommendation Approved ✓

Executive Director 