SUBJECT

THIRD ANNUAL UPDATE ON EFFORTS TO ASSIST SMALL AND/OR DISADVANTAGED COMMUNITIES IN MEETING THEIR WASTEWATER NEEDS

DISCUSSION

Small ¹ and/or disadvantaged ² communities (SDACs) face specific challenges related to their drinking water and wastewater systems.

Due to their small rate base, SDACs often cannot provide the economies of scale necessary to build and maintain adequate wastewater systems. Small and especially small and rural communities generally face higher per capita operations and maintenance (O&M) costs, and capital costs which result in higher, sometimes prohibitive, sewer rates.

The challenges SDACs face generally result from a lack of adequate local monetary resources combined with insufficient access to technical expertise. SDACs are often unable to retain qualified operators. If their wastewater treatment plants (WWTPs) violate water quality requirements, they often lack the capital to repair the problem, and are unable to pay the fines or penalties associated with non-compliance. Even if these communities secure financial assistance to improve their system, often there is insufficient in-house technical expertise to determine the best project alternative, or to appropriately plan for long-term O&M needs.

Failing septic systems and old, obsolete, or undersized WWTPs that cannot meet current water quality standards can cause significant health and safety problems, endanger surface water uses, and threaten groundwater supplies.

The State Water Board is committed to addressing the human health and water pollution problems SDACs face, especially in cases where these problems present an environmental injustice. In 2008, State Water Board staff, in coordination with Regional Water Quality Control Boards (Regional Water Boards) staff (collectively referred to as Water Boards), developed a Small Community Wastewater Strategy (Strategy), which provides an overview of the problems faced by SDACs and proposed solutions to address those problems.

The Strategy is referenced in State Water Board Resolution No. 2008-0048, adopted July 1, 2008, which promotes strategies to assist SDACs with wastewater needs, and directs staff to report annually on progress.

¹ Population less than 20,000 persons
² Median Household Income (MHI) less than 80 percent of statewide MHI
The first and second annual updates were presented as informational items at the July 7, 2009, and August 3, 2010, State Water Board meetings. The updates included a summary of actions taken to support SDAC wastewater needs, and a discussion of potential financial assistance and regulatory strategies to assist these communities in the future.

**UPDATE ON SDAC COMMUNITY WASTEWATER ACTIONS DURING SFY 2010-11**

The following is a summary of progress with respect to actions outlined in Resolution No. 2008-0048, the Strategy, and the first and second annual updates:

1. State Water Board staff continues to work with staff from the California Department of Public Health (CDPH), Department of Water Resources (DWR), United States Department of Agriculture (USDA), United States Environmental Protection Agency (U.S. EPA), and related agencies to identify opportunities to leverage resources. This coordination is facilitated by the State Water Board’s participation in the California Financing Coordinating Committee (CFCC) funding fairs, which were held during March, April, and May 2011, in Visalia, Alhambra, Arcata, Truckee, and Sacramento.

2. State Water Board staff is implementing the following improvements to the Clean Water State Revolving Fund (CWSRF) Program in an effort to make it more responsive and affordable to SDACs:
   
   a. Following procedures to process and disburse payments within 30 days of a complete payment request submittal;
   b. Offering planning financing agreements at zero percent interest during a draw period of up to three years, with the option to either repay over five years at half the general obligation (GO) bond rate, or to refinance the planning financing as part of a CWSRF construction financing agreement;
   c. Allowing for refinancing of existing local wastewater debts, if CWSRF eligible, and when necessary to make CWSRF financing for a new wastewater project affordable;
   d. Providing Extended Term Financing and/or reduced interest rates (less than half the GO bond rate, but not less than zero percent) for eligible small, disadvantaged communities with wastewater rates of at least 1.5% of the community’s MHI;
   e. Providing principal forgiveness to eligible SDACs. Per the Amended 2010-11 CWSRF Intended Use Plan (IUP), adopted May 17, 2011, the State Water Board reserved $97,770,482 in principal forgiveness authority, from the Federal Fiscal Year (FFY) 2010 and FFY 2011 CWSRF appropriations, for two categories of disadvantaged communities: 1) small, disadvantaged communities with substantial water quality investment; and 2) other communities. State Water Board staff continues to work with eligible communities to commit those funds. Exhibit A is a list of the principal forgiveness commitments made during SFY 2010-11.

State Water Board staff will continue to consider additional updates to the *Policy for Implementing the CWSRF for Construction of Wastewater Treatment Facilities* (CWSRF Policy) to help support the needs of SDACs, as appropriate.

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3 Small, disadvantaged community with wastewater rates at least 1.5% of the community MHI; or small community with wastewater rates at least 4% of the community MHI

4 Disadvantaged communities not qualifying under Category 1: project serving a disadvantaged area of a larger community; or project implementing a nationally designated estuary plan
3. State Water Board staff also continues to look at new and alternative funding sources to assist SDACs with their wastewater needs. Assembly Bill (AB) 2356 (Statutes 2008, Chapter 609, Arambula) created the CWSRF Small Community Grant Fund (SCG Fund), and allows the State Water Board to assess an annual charge on existing CWSRF financing agreements, for deposit into the SCG Fund. The annual charge is in lieu of interest that would otherwise be charged in association with a CWSRF financing agreement. AB 2356 authorizes the State Water Board to deposit up to $50 million into the SCG Fund by 2014.

Due to restrictions on federal funding and bond revenues, provisions regarding collection of the annual charge can only be incorporated into CWSRF financing agreements funded solely by CWSRF repayments. Staff already amended existing repayment-only financing agreements to incorporate the necessary provisions, with approximately $30 million in projected deposits by December 2014. Prior to the end of SFY 2011-12, staff will re-evaluate existing agreements to identify any additional repayment-only financing agreements with repayments beginning prior to December 2014. If $50 million cannot be deposited into the SCG Fund by December 2014, the State Water Board will be unable to collect the full $50 million without legislative action to extend the deadline.

As outlined in the Amended 2010-11 CWSRF IUP, the State Water Board had the authority to spend $1 million in SCG funds during SFY 2010-11. AB 2356 states that the State Water Board shall give funding priority to projects that serve severely disadvantaged small communities. Accordingly, the available $1 million in SCG funds was committed to the severely disadvantaged small community of Robbins, in Sutter County.

4. On December 28, 2009, the State Water Board executed a contract with the Rural Community Assistance Corporation (RCAC) to provide wastewater-related training to SDACs statewide through the end of SFY 2010-11. The goal of this contract is to improve compliance and achieve more stable and sustainable community governance, with improved asset management, fiscal planning, accountability, and public awareness of wastewater issues. RCAC provided free classroom and web-based training courses on a variety of topics, including: Board Governance; Wastewater Regulations; Infiltration and Inflow; Sewer System Management Plans; Budgeting and Financial Management; Capital Improvement Planning and Asset Management; O&M for Small Wastewater Utilities; and Rate Setting, Proposition 218, and Community Outreach.

As part of this contract, during SFY 2010-11, State Water Board staff utilized RCAC’s online training platform to provide five (5) training sessions on the CWSRF application process. Recordings of these sessions are available on the Strategy Webpage, and provide an excellent resource for communities that are new to the CWSRF application process. Also as part of the contract with RCAC, State Water Board staff participated in the following live training sessions: 1) a wastewater symposium put on by RCAC in Bakersfield on September 29, 2010; 2) a class on how to avoid common violations in Fortuna on April 17, 2011; and 3) a joint wastewater and drinking water symposium put on by RCAC also in Fortuna on June 1, 2011.

5 MHI less than 60 percent of the statewide MHI, and population less than 20,000 persons
Since a contract extension was not approved, this contract expired June 30, 2011. All the training materials produced in association with this contract, including recordings of the online training sessions are still available online. If future resources permit, the State Water Board may solicit bids for a new training contract.

5. State Water Board staff continues to identify, evaluate, and promote means of recruiting and retaining qualified operators for small wastewater systems, including considering incorporating the Provisional Wastewater Operator Certification into regulations. The proposed provisional certification would be available only in the case of simple systems (i.e., ponds). In an effort to improve retention, the provisional operator would be tied to a given community at least until full certification is received. The Draft Operator Certification Regulations are currently under revision. Staff anticipates soliciting public comments on the proposed regulations during spring of 2012.

6. State Water Board staff continues working to improve the permitting of small WWTPs. A unit in the Division of Water Quality (DWQ) is focused on assisting the Regional Water Boards in reducing the backlog of unprocessed applications for waste discharge requirements (WDR). Part of this work includes preparing general WDR to more efficiently permit small WWTPs. The general WDR would be applicable to existing facilities and could be used to replace outdated WDR for small WWTPs. Another task under consideration is the standardization of the content of the Report of Waste Discharge (applications for WDR), thus streamlining the permitting process.

7. During SFY 2010-11, State Water Board staff also worked with staff from CDPH regarding implementation of AB 2515 (Statutes 2010, Chapter 601, Pérez). AB 2515 authorizes CDPH to adopt emergency regulations for the use of point-of-entry (POE) and point-of-use (POU) treatment by public water systems in the Coachella Valley. The emergency regulations would be effective through January 1, 2014, or the effective date of the nonemergency regulations (if adopted prior to January 1, 2014). State Water Board staff was tasked with evaluating whether a statewide waiver or other guidance is necessary to address the waste streams resulting from POE and POU treatment. Staff assessed existing and expected technologies and waste streams resulting from POE and POU treatment. Staff found no examples of POE treatment in California, and relatively limited use of POU devices. The waste stream from POU devices is minimal and does not warrant development of a statewide waiver or other guidance. Since the waste stream from POE systems could be more significant, staff may evaluate the need for a statewide waiver or other guidance if POE systems are implemented in the future. However, these communities will be encouraged to implement a more permanent centralized solution, if economically feasible.

POTENTIAL SDAC WASTEWATER ACTIONS

In October 2010, a Small Community Wastewater Improvement Workgroup (Workgroup) was created to evaluate rules, practices, or other issues that may be problematic for SDACs. The Workgroup:

- Considered various potential financial assistance and regulatory program improvements;
- Solicited input from industry organizations that work with SDACs to better understand the high priority concerns and cost drivers for SDACs;
- Developed a refined list of potential actions to specifically address identified priority concerns/cost drivers;
Hosted a meeting with various environmental justice, technical assistance, and industry organizations that work with SDACs to:

- Provide a summary of efforts to date, and discuss potential actions for the future,
- Solicit feedback and comments, which were considered in preparing this informational item.

The following is a summary of the priority concerns/cost drivers identified by the Workgroup, and potential financial assistance and regulatory actions to address those concerns/drivers.

**Priority Concern/Cost Driver No. 1: SDACs Need Technical and Compliance Assistance**

SDACs would benefit from additional technical assistance, especially for help with preparing financial assistance application materials, and for compliance assistance.

**Potential Action No. 1a: Technical Assistance Contract**

One option for improved technical and compliance assistance would be to develop an SDAC expert within the State Water Board to assist in this capacity, and to help train Regional Water Board staff responsible for permitting and inspecting SDACs systems. However, the preferred option is to contract with an outside entity for technical and compliance assistance services. Such a contract will be especially valuable to SDACs, since an outside contractor can provide specific input and make explicit recommendations that Water Boards staff, as part of the regulatory agency, cannot.

Division of Financial Assistance (DFA) staff is currently working to contract with an outside entity to provide onsite wastewater-related technical assistance to SDACs. Technical assistance efforts will be available statewide, and will be tailored to the needs of individual communities, focusing on the following general areas of concern: preparation of financial assistance applications; design and operational solutions, including compliance assistance; community outreach, awareness, and education; fiscal management and accountability; capital improvement planning and asset management; rate setting and the Proposition 218 process.

**Next steps, estimated time and staffing requirements**

Bids have already been solicited for this technical assistance contract. Contract execution is in process and anticipated by December 2011. Once executed, the contract will remain in effect through the end of June 2013. DFA intends to manage the contract with existing resources.

**Potential Action No. 1b: Financial Incentives to Encourage Larger Entity Support**

State Water Board staff is also planning to develop a process, through the CWSRF Program or other means, to encourage larger entities to help support the needs of SDACs. The State Water Board is exploring offering larger entities financial incentives, such as lower interest rates, in exchange for efforts to assist SDACs. However, the funding source and assistance provided by the larger community would need to be evaluated to ensure compliance with Proposition 218. Assistance options could include, for example: preparation of applications; legal, financial, or technical advice or analysis; operator or managerial training or service; etc.
Next steps, estimated time and staffing requirements
After researching similar incentive programs being implemented in other states, DFA staff will evaluate potential options for implementation. If a feasible approach to incentivize larger entity support of SDACs is developed, DFA staff can proposed related program changes during the next CWSRF Policy amendment. No additional resources are required.

Priority Concern/Cost Driver No. 2: High Monitoring Costs, Particularly for Groundwater
Localized monitoring wells and groundwater monitoring are a significant expense for many SDACs. In some cases the potential groundwater impacts from a small WWTP are less than the septic tanks, leach lines, and other potential sources within the same community or region. Although groundwater monitoring is of particular concern, the monitoring and reporting requirements in National Pollutant Discharge Elimination System (NPDES) permits can also be burdensome for SDACs.

Potential Action No. 2: Guidance to Standardize Monitoring and Reporting
The State Water Board could develop guidance to help standardize the development of Monitoring and Reporting Programs to help ensure that monitoring plans are precise about what is needed and adaptive over time while minimizing the cost to SDACs, but at the same time providing information to determine impacts to water quality. As much as possible, monitoring requirements on individual small WWTPs should be minimized. Participation in regional monitoring efforts can be encouraged, but requirements on individual small WWTPs are necessary to confirm compliance with the Policy with Respect to Maintaining High Quality Waters in California (Antidegradation Policy; State Water Board Resolution No. 68-16). In addition, when implementing a new policy or regulation that requires a new type of monitoring, the Water Boards should consider excluding SDACs or phasing those requirements, as appropriate.

The following sections provide information specific to: NPDES permits, for discharges to surface water; and WDRs, for discharges to land.

STANDARDIZING NPDES MONITORING AND REPORTING REQUIREMENTS
The State Water Board has funded studies by the Southern California Coastal Water Research Project (SCCWRP) to develop model monitoring for large dischargers, and medium and small WWTPs. The State Water Board also held a public workshop on May 5, 2005 to initiate a stakeholder process that would consider consistent monitoring elements for discharge monitoring programs consistent with the SCCWRP study findings. State Water Board staff released a draft model monitoring amendment to the Ocean Plan in September 2011 for public comment. On November 1, 2011, the State Water Board held a public hearing on the proposed amendments to the California Ocean Plan related to model monitoring, among other things. Although the model monitoring in the Ocean Plan is specific to ocean dischargers, with additional work, it could be applied to dischargers in inland fresh water, enclosed bays, and estuaries, if the Policy for Implementation of Toxics Standards for Inland Surface Waters, Enclosed Bays, and Estuaries of California (SIP) were amended.

Federal regulation 40 CFR Part 122.63 specifies the changes to a permit that can be classified as minor modifications. Reduction in effluent monitoring is not one of the changes considered a minor modification. Thus, without a statewide policy, reductions in effluent monitoring will have to be approved by the Regional Water Boards or the State Water Board.
Next steps, estimated time and staffing requirements
Amending the SIP to include model monitoring for discharges to inland fresh water, enclosed bays, and estuaries would require a redirection of staff from current priorities.

STANDARDIZING WDR MONITORING AND REPORTING REQUIREMENTS
There is some inconsistency among the Regional Water Boards in the groundwater monitoring requirements they are issuing. The State Water Board could issue some general guidance to the Regional Water Boards regarding groundwater monitoring that may provide some standardization of requirements. The State Water Board would have to adopt a policy, however, to ensure consistent implementation. Such a policy would have to go through peer review and CEQA review, and the final policy might end up requiring more monitoring, not less.

Next steps, estimated time and staffing requirements
Developing either guidance or a statewide policy to standardize monitoring for WDRs would require a redirection of staff from current priorities.

Priority Concern/Cost Driver No. 3: SDACs Need Affordable Financing for Planning and Adequate Time to Achieve Compliance
A lack of planning financing is one of the fundamental issues affecting the ability of SDACs to meet compliance schedules. Without funds for planning, SDACs are unable to develop viable solutions to their water quality problems. Compliance schedules should be realistic and account for the time it takes SDACs to secure funding for planning and to flush out potential alternatives, including the pursuit of potential lower cost options like mixing zone studies, site specific objectives, or basin plan amendments. In many cases, these communities must also go through a sewer rate increase, in compliance with Proposition 218, which adds additional time and effort to the process of securing financing for implementation of compliance projects.

Potential Action No. 3a: Making Planning Financing Available to SDACs
Without affordable planning financing, SDACs are unable to develop viable solutions to their water quality problems and meet compliance schedules. The Amended 2010-11 CWSRF IUP allows eligible entities to receive principal forgiveness for planning. However, due to a lack of authority the State Water Board has been unable to issue planning financing to most cities and counties. This issue has been particularly troublesome because it hinders the State Water Board’s ability to provide small and/or disadvantaged cities (or counties assisting unincorporated SDACs) with principal forgiveness for planning. This will change with Senate Bill (SB) 244 (Statutes 2011, Chapter 513, Wolk), effective January 2012. The bill allows those public agencies eligible for CWSRF financing, including cities, counties, and special districts, to enter into loans (subject to applicable constitutional restrictions) specifically for the purposes of

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6 General law cities (i.e., cities organized under state law without a charter) and counties do not have general authority to enter into loans. Instead of loans, the CWSRF Program uses alternative funding mechanisms called Installment Sales Agreements (ISAs) as the instrument for CWSRF construction financing agreements. However, ISAs require an exchange of real property or capital assets, and non-capital projects like planning have no associated real property or capital assets; therefore ISAs cannot be used for planning financing. Therefore, the State Water Board has been unable to make planning loans to general law cities and counties.
CWSRF financing. Once the bill goes into effect, the State Water Board will be able to offer planning loans, including principal forgiveness, to eligible cities, counties, and special districts.

**Next steps, estimated time and staffing requirements**
SB 244 is effective January 2012. Once the bill goes into effect, DFA will be able to offer CWSRF planning financing to eligible cities, counties, and special districts. Therefore, no further action is required.

**Potential Action No. 3b: Explore Extending Compliance Schedules in Enforcement Orders and in NPDES Permits, When Appropriate**

Compliance schedules need to account for the time it takes SDACs to secure funding for planning, and to flush out potential alternatives for achieving compliance.

The State Water Board does not have a policy regarding compliance schedules for discharges to land. The Regional Water Boards have discretion to establish compliance schedules that balance the capabilities of small communities with the need to protect water quality. Usually, when a compliance schedule is being prepared, the Regional Water Board asks the discharger to submit a schedule, which establishes the basis for negotiation. If needed, WDR time schedules can be adjusted for previously unforeseen circumstances, like Proposition 218 rate protests, funding issues, etc. For discharges to land, the Regional Water Boards are already considering the constraints inherent in being an SDAC. Therefore, staff does not recommend further action with regard to extending compliance schedules in WDRs.

The following sections provide information about extending compliance schedules, specifically with respect to: enforcement orders; and NPDES permits.

**EXTENDING COMPLIANCE SCHEDULES IN ENFORCEMENT ORDERS**

Some violations of NPDES permits are subject to mandatory minimum penalties (MMPs). Enforcement orders that impose compliance timelines can protect dischargers from MMPs for an initial term of up to five years. The Office of Enforcement (OE) is currently preparing guidance on California Water Code (CWC) Section 13385(j)(3), which allows compliance timelines in enforcement orders to be extended for up to an additional five years. Extending the compliance timeline would also extend protection from mandatory minimum penalties (MMPs) to the date of the new compliance deadline. This change in statute allows SDACs more time to implement their compliance projects, with relief from MMPs during the compliance timeline. An SDAC seeking to extend MMP protection must demonstrate that the SDAC made diligent efforts to comply with the milestones in the original schedule, and remain in compliance with the revised enforcement order.

**Next steps, estimated time and staffing requirements**
OE is preparing guidance on CWC 13385(j)(3), which allows NPDES compliance timelines and MMP protection to be extended for up to ten years in enforcement orders.

**EXTENDING COMPLIANCE SCHEDULES IN NPDES PERMITS**

The Board could also consider changes related to compliance schedules within NPDES permits. In-permit compliance schedules begin when a new limit is first put into the permit. However, the time schedule provided in the permit is based on the compliance
schedule in the adopted, revised, or newly interpreted water quality objective or criterion as required by State Water Board’s Policy for Compliance Schedules in NPDES Permits (State Water Board Resolution No. 2008-0025). Thus, even if the adopted, revised, or newly interpreted water quality objective or criterion has been adopted several years prior to its use as a limit basis in a permit, the in-permit compliance schedule must conform to the compliance schedule already set in the water quality objective or criterion.

For example, the State Water Board’s SIP was adopted in May 2000, with a compliance schedule of May 2010. NPDES permits that were reissued in May 2006 only had until May 2010 to comply with the SIP. To make compliance schedules more achievable for resource-limited SDACs, their permit compliance schedules should start on the date of adoption of the permit (or when the permit becomes effective after adoption) with a compliance due date of up to ten years after permit adoption. Although this may discourage proactive actions, it gives SDACs more realistic and feasible timelines for compliance.

Next steps, estimated time and staffing requirements
Per State Water Board Resolution No. 2008-0025, time schedules in NPDES permits are based on the compliance schedule set in the adopted, revised, or newly interpreted water quality objective or criterion. To make compliance schedules more achievable for resource-limited SDACs, their permit compliance schedules should start on the date of adoption of their permit (or when the permit becomes effective after adoption) with a compliance due date of up to ten years after permit adoption. This would require a revision to the Policy, which would require a redirection of staff from current priorities.

Potential Action No. 3c: Explore Broadening the Definition of Small Community to Minimize the Impacts of Mandatory Minimum Penalties (MMPs)
When SDACs are unable to comply with their effluent limits they will automatically accrue MMPs. CWC Section 13385 gives Regional Water Boards the ability to permit a small community with financial hardship to apply MMPs toward a compliance project that is designed to correct the violation. Currently, to qualify as a small community with financial hardship, the community must have a population of 10,000 or less. If CWC Section 13385 is modified to set the population limit for a small community with financial hardship at 20,000 or less, it would allow eligible hardship communities in the 10,000 to 20,000 population range to benefit from this alternative. This would help SDACs in implementing compliance projects, and maintain consistency with the population criterion used to identify small communities in DFA.

Next steps, estimated time and staffing requirements
Not applicable. Legislative action required.

Priority Concern/Cost Driver No. 4: New Plans, Policies, and Regulations Should More Thoroughly Analyze the Options for and Cost of Compliance, Particularly for SDACs
Many SDACs feel that, when new plans, policies, or regulations are adopted, the cost of compliance for SDACs is not adequately considered, and that general guidance regarding potential options for achieving compliance would be helpful.
**Potential Action No. 4: Develop Small Community Regulatory Strategy**
The Water Boards could implement a Small Community Regulatory Strategy requiring staff to consider SDAC costs and compliance issues in the development of Water Board plans, policies, or regulations. Staff could identify high cost impacts up front, outline possible means for compliance, and look for opportunities to reduce costs. This would allow staff to identify areas for potential SDAC regulatory relief, and make feasible options for compliance more readily apparent and available to SDACs. SDACs would benefit from guidance and education on potentially lower cost compliance options, such as simplified approaches to evaluating mixing zones, seasonal limits, or floating limits. The time needed to complete the studies necessary to implement these potential lower cost options should also be built into the compliance schedules.

**Next steps, estimated time and staffing requirements**
DWQ staff recommends adopting a resolution advising Water Board staff to evaluate the capability of small communities to comply with proposed plans, policies, or regulations. This evaluation would be presented in the staff report associated with the proposed plan, policy, or regulation. DWQ staff estimates this additional analysis would increase the time and staff resources for the economic analysis portion of the staff report by approximately ten to twenty percent.

**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 Goals 1, 2, and 5 of the Strategic Plan Update: 2008-2012 to implement strategies to fully support the beneficial uses for all 2006-listed water bodies by 2030 (Goal 1), improve and protect groundwater quality in high-use basins by 2030 (Goal 2), and improve transparency and accountability by ensuring that 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, such as establishment of a statewide water data institute water bodies by 2030 (Goal 5).