



California Department of
Public Health

Safe Drinking Water State Revolving Fund

Final Intended Use Plan

SFY 2009-2010

DWSRF Grant Application for

FFY 2008 & FFY 2009 Federal Allotment

September 2009

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*Note – the State reserves the right to amend the Intended Use Plan and related appendices at any time without notice or opportunity to review if the amendment is necessary to effectively implement the California Safe Drinking Water State Revolving Fund program. Any necessary amendments will be reflected and explained in the Annual Report. Revisions to the Intended Use Plan, if needed, will be posted at the CDPH website:
<http://www.cdph.ca.gov/certlic/drinkingwater/>*

Note -- As used in this Intended Use Plan as well as all appendices, the terms “loan principal forgiveness” or “forgiveness of principal” refer to a “grant” as that term is used in California SDWSRF law and regulations, and are intended to be distinguishable from additional loan subsidization offered in the form of a negative rate of interest applied over a loan repayment term.

Note –This Intended Use Plan Reflects the SDWSRF program (base program) and does not include information on implementation of the federal stimulus (American Recovery and Reinvestment Act) grant(s), presently being implemented.

I. INTRODUCTION

A. Background

In California, the responsibility for regulating public water systems and overseeing the safety of drinking water rests with the Department of Public Health (CDPH). CDPH has been designated as the “primacy agency” by the United States Environmental Protection Agency (USEPA) for purposes of implementing and enforcing the federal Safe Drinking Water Act (SDWA). CDPH regulates some 7,800 public water systems located throughout the State. To assist in this effort, CDPH delegates to 36 of the 58 counties in the State responsibility for enforcement of the State drinking water requirements for public water systems serving less than 200 service connections.

Many California water systems are having difficulty in complying with the numerous new drinking water standards and requirements due to the lack of sufficient financial resources. In addition to the compliance needs, systems also face the need to improve their source water capacity and treatment plants, replace old or inadequate pipelines and equipment, and improve their managerial and technical capability.

The 1996 amendments to the federal SDWA responded to that national need by establishing the Drinking Water State Revolving Fund program (DWSRF). The SDWSRF provides financial assistance in the form of Capitalization Grants to states to provide low interest loans and other assistance to public water systems. In order to receive these funds, states must have statutory authority and must provide a state match equal to 20% of the federal Capitalization Grants. The magnitude of these needs is reflected in the Drinking Water Infrastructure Needs Survey conducted by the USEPA in 1995, 1999, and 2003. Based on the results of the 2003 survey, USEPA now earmarks 8.15% of DWSRF funds made available to the states for California.

The federal and state laws allow a portion of federal funds to be used for specified activities in addition to providing financial assistance to public water systems for infrastructure improvements. CDPH intends to utilize 11% of the FFY 2008 and FFY 2009 DWSRF allotment award for set aside activities not directly providing funding for water system projects. Specifically, CDPH plans to use set asides for (1) 4% for administration of the Safe Drinking Water State Revolving Fund (SDWSRF) financial assistance program, (2) 2% for technical assistance to small water systems, (3) 3.6% for water system capacity development, and (4) 3.7% for public water system supervision (PWSS) program management. CDPH will not set aside funds for source water protection from this grant. However, CDPH may set aside funds for this purpose from future grant applications depending on the interest for such funding. The remaining 86% of federal funds, plus all state matching funds, and all interest and repayments will be used for project funding.

To receive funding approval from the USEPA, the State submits a Capitalization Grant application and an Intended Use Plan (IUP) which describes the State plan for utilization of the program funding. Federal guidelines, and related state statute, require that the IUP include a description of how the program is structured, the planned use of the funds, the criteria, and methods to be used for distribution of the funds, the goals for the program, and a specific project priority list. The California IUP presented herein is prepared and submitted in compliance with those requirements.

B. Statutory Authority

California's statutory basis for the SDWSRF is set forth in Sections 116760.20 through 116762.60 of the California Health and Safety Code (H&S Code). With only minor differences, the State statute parallels the federal law and requirements. Therefore, the federal law and the DWSRF program guidelines and regulations of USEPA generally govern the conduct of the California program. To aid in implementation of this authority, CDPH has adopted SDWSRF program regulations, which are set forth in Sections 63000 through 63058 of the California Code of Regulations (CCR). A copy of these regulations is attached as Appendix B.

C. Program Structure

The California SDWSRF program is administered and directed by CDPH. CDPH staff conducts many of the activities associated with implementation of the SDWSRF program, however CDPH contracts with other State and local agencies and independent contractors for specific activities. Through an interagency agreement (contract), the California Department of Water Resources (DWR) provides assistance in administering the local financial assistance portion of the SDWSRF program. DWR (1) conducts the financial review of project applications, (2) determines the ability of the applicant to repay the loan, (3) determines the amount of loan subsidy, if any, and (4) establishes the financial terms and conditions of loan contracts. In this context, DWR prepares notices of application acceptance as authorized by CDPH, prepares draft and final funding agreements. During project construction, DWR reviews and processes claims submitted by funding recipients, and concurs in authorization of disbursements to funded projects. DWR maintains a record of disbursements on loans, and prepares semiannual billing notice information for CDPH.

The SDWSRF program is managed by the chief of the Safe Drinking Water State Revolving Fund and Small Water System section within the CDPH Division of Drinking Water and Environmental Management. The section chief serves as the program manager, and provides direction and coordination of various aspects of the SDWSRF program and assurance of compliance with federal cross-cutters. The section chief/program manager is also responsible for assuring statewide consistency in the implementation of the program. The ranking of projects on the priority list and the management of individual projects (technical review of applications, approval of plans and specifications, construction inspections, etc.) is the responsibility of CDPH drinking water field operations district offices.

II. DRINKING WATER STATE REVOLVING FUND PROGRAM GOALS

The SDWSRF program goals set forth below reflect both federal and state legislative intent to provide funding to correct public water system deficiencies based upon a prioritized funding system. The California SDWSRF funding system utilizes a comprehensive multi-year Project Priority List (See Section VI, Project Priority List), whereby (1) public water system projects addressing public health risk problems, (2) public water system projects needed to comply with the SDWA, and (3) projects assisting public water systems most in need on a per household affordability basis, receive higher funding priority than other eligible public water system projects.

In general, the SDWSRF provides the 7,800 public water systems in California the opportunity to utilize subsidized funding to correct infrastructure problems, to assess and protect source water, and to improve technical, managerial, and financial capability. The SDWSRF additionally benefits almost 7,400 small water systems (water systems serving a population of fewer than 10,000) by providing technical assistance in most aspects of public water system operations and management.

A. California SDWSRF Goals

A1. Continue funding projects on the comprehensive, multi-year Project Priority List

One of the primary goals of the SDWSRF program is to provide a fund those projects that are in high priority categories. As discussed in Section VI, Project Priority List, the categories A through G categories contain projects to mitigate a current risk to public health or to correct a violation of the SDWA. The Project Priority List developed by CDPH for the Capitalization Grant is revised at least biennially, to include new projects. Projects by-passed will be eligible for funding in subsequent years at the same time as new projects in the same category. CDPH determines the fundable portion of the Project Priority List and invites eligible public water systems to apply for funding annually. If the responses to the Statement of Interest are not sufficient to enable the program to obligate the available funds, the need for an additional cycle of invitations will be evaluated.

Target: (1) At least 200 invitations to be mailed by May annually; (2) Provide assistance to water systems to enable submission of at least 30 completed applications by the application deadline.

A2. Maintain the Project Priority List and Intended Use Plan (IUP)

CDPH notifies every eligible public water system in the state of the annual opportunity to submit a preapplication for incorporation into the SDWSRF project priority list. The staff in CDPH district offices evaluates each project and ensures it is placed in the appropriate health risk category. Bonus points are assigned based on the criteria developed by CDPH Regional Engineers and other departmental staff review the Project Priority List before its publication to ensure that the rating of the projects is consistent. The ranked pre-applications are integrated into the compiled priority list. Approximately 400 new or revised SDWSRF preapplications are received during the annual preapplication period. CDPH intends to hold a public hearing in the last quarter of each state fiscal year to receive comments on the draft IUP, and draft updated SDWSRF Project Priority List, prior to adopting the listing for use.

Target: (1) Hold a public hearing on the draft IUP and Project Priority Lists each state fiscal year. (2) Announce the preapplication submission period each summer for at least a 30-day period (3) Rank preapplications received during the annual submission period. (4) Publish a draft Updated Project Priority List within six months of the close of the preapplication submission period...

A3. Provide funding opportunity to highest priority systems.

The SDWSRF project priority list ranking criteria prioritize the most serious public health risk into the highest categories so that these systems have the opportunity to apply for and receive SDWSRF prior to less projects to correct less serious problems and deficiencies. A detailed description of the SDWSRF project ranking/prioritization process is described in Section VI of this Intended Use Plan.

Target: (1) Enter in to preliminary funding agreement (notice of application acceptance -- NOAA) for at least 10 projects in categories B, C, D, and E; (2) Update the project priority list by contacting each system with a project in category A through G [highest priority categories] to determine whether the project is still needed, the readiness to proceed, whether other funding has been obtained; (3) Hold at least 20 (pre) application planning/scoping meetings with systems to assist them in the application process.

A4. Ensure that all public water systems provide an adequate, reliable supply of safe, clean drinking water and achieve and maintain compliance with the SDWA

In furtherance of the overall goal of safe and reliable drinking water, CDPH utilizes the resources of the SDWSRF fund for low interest loans and, in some cases, principal forgiveness ("grants") to enable water systems to fund necessary infrastructure improvements. CDPH manages the SDWSRF resources in accordance with the needs of California's residents served by public water systems to fund projects to ensure that public water systems are able to provide an adequate, reliable supply of safe clean drinking water in conformance with federal and state standards. The SDWSRF project ranking process ensures that program resources and funds are applied to the most significant public health and compliance problems. CDPH monitors the fund to ensure that it remains financially viable over the long term as an ongoing source of water system funding. Through 2009, over \$100 million in interest and principal repayments have been made by funding recipients on over \$250 million in claims paid.

Target: (1) Finalize formal funding agreements for at least 10 projects in categories A through G, (2) Process all complete claims received in a timely manner.

A5. Maintain an efficient and effective Safe Drinking Water State Revolving Fund program for the State of California through planned evaluation and revision of the program.

CDPH has developed the SDWSRF program based on its own experience regulating public water systems, on the knowledge and experience of the drinking water industry and based on the public input received. CDPH also meets regularly with the USEPA Region IX staff to discuss its SDWSRF program development activities. The California SDWSRF program provides an annual evaluation of the program to USEPA, and periodically reports to the Governor on the effectiveness of the capacity development program. The SDWSRF program is also reviewed annually for audit requirements related to the federal grant, as well as requirements of state match bond funds. These review and audit requirements provide the opportunity for modification of the program to maximize the effectiveness of the program.

Target: Convene the internal SDWSRF policy committee at least quarterly; hold at least one round-table meetings with water system representatives and other stakeholders each year.

A6. Provide, maintain, and update data management tools to enable oversight of SDWSRF projects and the overall SDWSRF fund.

CDPH staff, in conjunction with consultants, continues necessary enhancement of the LGTS (Loan and Grant Tracking System) reporting and tools to facilitate SDWSRF project tracking, program oversight and fund management.

Target: Customize LGTS to provide for the complex financial data management needs of the California SDWSRF program. Finalize and implement a transition strategy from previous information management applications.

A7. Provision of State Match for Ongoing Implementation of the SDWSRF program

Each SDWSRF grant application requires identification of a source of state matching funds. The 20% state fund match is provided from sale of general obligation bonds authorized by Propositions 13, 50 and 84, as authorized by the Legislature and Governor, and approved by the electorate. Alternate funding would be sought from the Legislature in the absence of continued Bond support for the SDWSRF program.

Target: Ongoing provision of state match funds.

A8. Maintain the fiscal integrity of SDWSRF fund to assure continuous funding availability for future drinking water infrastructure needs

In order to ensure that the SDWSRF Program fairly presents the results of its yearly financial and programmatic operations, an annual comprehensive audit is conducted in accordance with the requirements of the Single Audit Act, which is promulgated by the Federal Office of Management and Budget (OMB) Circular A-133. OMB Circular A-133 requires that the auditors issue an opinion on the financial statements along with the changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America. It also requires a report to be issued on compliance and internal control over financial reporting in accordance with Governmental auditing Standards.

The goal of the program is to continue to meet and maintain these high standards in order to run an efficient, effective program, in the most economical manner, and demonstrate sound business practices. Additionally, the SDWSRF program must meet audit requirements related to sources of State matching funds sources.

Target: Annually meet audit requirements of federal and State funding programs.

A9. Reduce Cost of Drinking Water

SDWSRF funding helps water systems minimize cost increases in the cost of supplying reliable, safe drinking water by providing affordable financing for the construction of technically sound drinking water infrastructure projects. Water systems are encouraged to include water conservation measures, including water meters, in conjunction with SDWSRF projects. Water meters encourage the

conservation of water, and thereby produce savings related to avoided costs of production, treatment, storage and pumping. SDWSRF also allows water systems to include energy efficiency, and system security enhancements funded projects.

SDWSRF encourages the consolidation or regionalization of small public water systems that lack the capability or potential to be operated and maintained in a cost effective manner by prioritizing consolidation projects and assisting the applicant systems through the funding process. The resultant systems can provide consumers with more reliable water supply in compliance with all drinking water standards in a more affordable manner. The SDWSRF regulations include provisions to facilitate funding of consolidation projects.

Target: Promote water efficiency by providing financing for meters for systems with unmetered water services. (Target: 10 projects)

A10. Continue implementation of the set-aside programs

In furtherance of the overall goal of safe and reliable drinking water, CDPH allocates funds to set aside programs (e.g. technical assistance and capacity development) to improve the capability of each public water system to operate in compliance with the SDWA, by enhancing the system's technical, managerial, and financial capability ("TMF capacity"). Important elements of this include enhancing the technical knowledge of small water system personnel in complying with regulatory requirements, and enhancing the technical knowledge of small water system operators in water treatment. CDPH implements these programs by providing direct assistance to water systems. In addition outside providers assist smaller water systems in meeting TMF capability goals in applying for SDWSRF and other water infrastructure loans and grants. CDPH will complete updated workplans for each set-aside activity. The workplans contain detailed information on planned utilization of the funds. The Annual Report will reflect accomplishments of the workplan specific activities.

Target: Submit annual draft update of workplans by June annually.

B. California Goals Correlation to USEPA National Strategic Plan Goals

California has established and is manages the SDWSRF to provide low cost loans and grants, and provides other types of assistance to water systems to achieve or maintain compliance with SDWA requirements. California SDWSRF program supports U.S. Environmental Protection Agency National Strategic Plan (2009-2014) (a) Goal 2: Clean and Safe Water, "Ensure drinking water is safe. Restore and maintain oceans, watersheds, and their aquatic ecosystems to protect human health, support economic and recreational activities, and provide healthy habitat for fish, plants, and wildlife;" (b) Objective 2.1 Protect Human Health, "Protect human health by reducing exposure to contaminants in drinking water (including protecting source waters), in fish and shellfish, and in recreational waters;" (c) Sub-objectives No 2.1.1 Water Safe to Drink: "By 2014, 93 percent of the *population served by community water systems* will receive drinking water that meets all applicable health-based drinking water standards through effective treatment and source water protection; By 2014, 90 percent of community water systems will provide drinking water that meets all applicable health-based drinking water standards through approaches including effective treatment and source water protection. By 2014, *community water systems* will provide drinking water that meets all applicable health-based

drinking water standards during 97 percent of person months (i.e., all persons served by community water systems times 12 months)."

Through the California SDWSRF funding (current plan and prior periods) has assisted public water systems in meeting the federal and state drinking water compliance requirements. California SDWSRF activities support USEPA program reporting code (PRC) 201B81E. During finalization of the IUP, California and USEPA review and update California's Strategic Plan commitments for the State Fiscal Year. Details of California's SDWSRF activities supporting USEPA's National Strategic Plan are included in CDPH Annual Report to USEPA.

III. INTENDED USE OF SDWSRF FINANCIAL ASSISTANCE FUNDS

A. State Matching Funds

The State of California provides the required 20% State match through the sale of State General Obligation bonds authorized by the Legislature and approved by the voters. A total of \$13,621,680 is earmarked to provide for the state match for the federal grant award for the FFY 2008 and FFY 2009 DWSRF allocation. The state funds are made available, as payment is required for invoices related to project funding agreements entered in to from the FFY 2008 and FFY 2009 DWSRF grant award. Alternate funding will be sought from the Legislature or through leveraging in the absence of continued bond support for the SDWSRF program. Consistent with federal requirements, all state matching funds are allocated to the SDWSRF loan fund.

Table 1			
FFY 2008 & FFY 2009 DWSRF Allocation Funds			
	FFY 2008	FFY 2009	Total
Federal Capitalization Grant	\$66,424,000	\$66,424,000	\$132,848,000.
Set aside programs			
Administration (4%)	\$2,656,960	\$2,656,960	\$5,313,920.
Small Water Systems Technical Assistance (2%)	\$13,284,800	\$13,284,800	\$26,569,600.
State Program Management (3.7%)	\$2,482,164	\$2,482,164	\$4,964,328.
Capacity Development (3.6%)	2,400,000	2,400,000	\$4,800,000.
Balance of Federal grant funds to SDWSRF Loan Fund	\$70,841,196	\$70,841,196	
State Match (20%)	13,284,800	13,284,800	\$26,569,600.
SDWSRF Local Assistance (Loan) Funding	\$57,556,396	\$57,556,396	\$115,112,792.
<i>Estimated</i> repayments (principal and interest) available			\$110,000,000

B. Proposed Uses

The State of California was allocated is \$66,424,000 from the FFY 2008 DWSRF funding, and \$66,424,000 from the FFY 2009 DWSRF funding. CDPH plans to set-aside \$2,656,960 from each grant for Administration (4 %), \$1,328,480 from each grant for Small Water Systems Technical Assistance, (2 %), \$2,400,000 from each grant for Capacity Development (3.6%), and \$2,482,164 from each grant to augment Public Water System Supervision related activities (3.7%). Including the \$13,284,800 (\$26,569,600 total) state funds to meet the 20% federal/state match requirement for each grant, will result in addition to the SDWSRF loan fund of \$70,841,196 as the result of each grant award to be used for local project funding (\$141,682,392 increase in project funding available) The SDWSRF loan funds will be obligated to specific projects within the required timeframe of receipt of the federal grant award. In addition, during SFY 2009-2010, an estimated \$110 million in repayments (either principal or interest) made to the SDWSRF from previous loan recipients will be available for re-obligation. CDPH intends to re-obligate funds within twelve months of payment receipt, or as soon as the aggregate repayments is sufficient to fund a reachable project. A graphic chart is provided to illustrate funding utilization for 1 through 11 of the California SDWSRF program. A spreadsheet summarizing the SDWSRF program budget for years 1 through 11 is provided in Appendix C... Separate accounts have been established for financial support and accounting of the following set-aside programs:

1. Administration

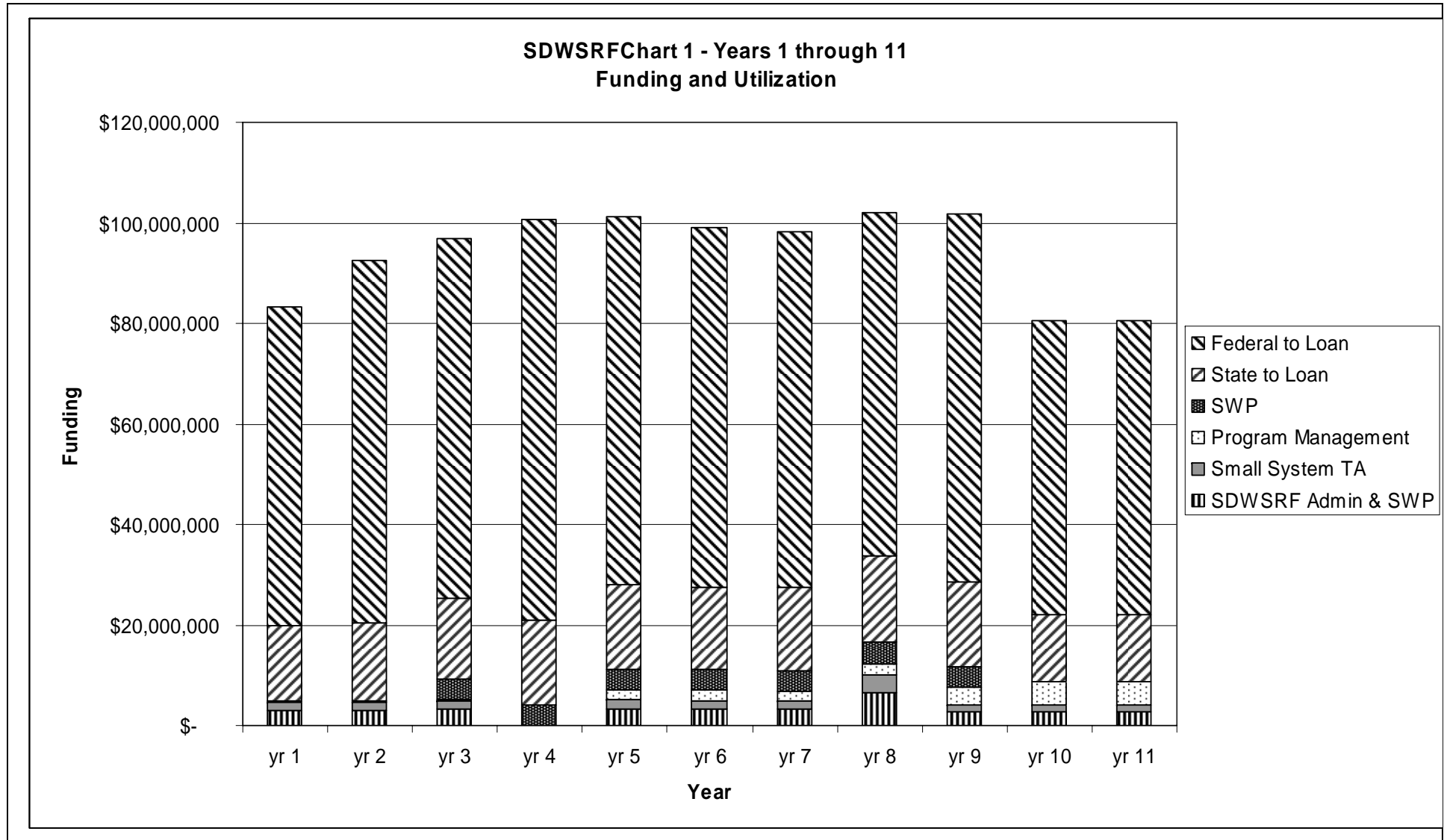
CDPH plans to set aside 4 % allowed for the administration costs from the FFY 2009 and the FFY 2010 federal awards (\$4,964,328 total). Any funds available at the end of the fiscal year will be banked for use in future years and to ensure the availability of sufficient funds to administer the program in perpetuity. Specific activities supported by the Administration set aside are outlined in Section IV, Set-Aside Activities, and the related workplan. Portions of these activities are implemented through Interagency Agreements with DWR, other state agencies, and contracted assistance providers.

2. Small Water Systems Technical Assistance

The SDWA authorizes states to set aside 2% of the FFY 2009 and the FFY 2010 federal awards (\$2,656,960 total) to provide technical assistance to small water systems (those with populations of less than 10,000). Since almost 7,400 of California's 7,800 water systems fall into this category, CDPH intends to utilize the full 2% for this purpose. The process developed by CDPH to provide technical assistance to California's small water systems is outlined in Section IV, Set-Aside Activities, and in the related workplan.

3. Source Water Protection Fund

The CDPH SWP program will not invite applications for funding during the period covered by this IUP. CDPH may set aside funds for SWP projects from future grant applications depending upon requests for such funding.



4. State Program Management

a. Water System Capacity Development [Technical, Managerial, Financial (TMF)]

The SDWA encourages states to establish a “capacity development strategy” and sets specific goals and deadlines which states must meet in order to remain eligible to receive both the funds for the capacity development set-aside and to preserve the full Capitalization Grant award. CDPH intends to allocate \$2,400,000 (3.6 %) of the FFY 2009 and the FFY 2010 federal awards (\$4,800,000 total) to support TMF capacity development activities. These funds will be used to continue the capacity development efforts including the assessment of existing public water systems. CDPH will provide the “1 to 1 match” through current PWSS overmatch and previous years’ credit. The CDPH capacity development strategy is set forth in Section IV and in the related workplan. Portions of these activities are implemented through contracted assistance providers.

b. Augment Public Water System Supervision (PWSS) Related Activities

CDPH intends to allocate \$2,482,164 (3.7%) of the FFY 2009 and the FFY 2010 federal awards (\$4,964,328 total) for Public Water System Supervision (PWSS) related activities. In general, the funds will be used to increase the frequency of inspections and surveys of smaller water systems, to evaluate treatment and infrastructure improvement needs; the review of plans and specifications, particularly in relation to for conformance with treatment requirements; to provide technical assistance to managers and operators of public water systems; and to enhance emergency preparedness and terrorism/disaster response preparedness of CDPH and public water systems. CDPH will provide the “1 to 1” match through current PWSS overmatch and previous years’ credit. The CDPH PWSS set-aside use is described further in Section IV and in the detailed related workplan.

C. **Eligibility for SDWSRF Funding**

1. Eligible Systems

Community water systems, both privately and publicly owned, and non-profit noncommunity water systems are eligible for SDWSRF financial assistance. Systems providing water for human consumption through constructed conveyances that have become subject to the SDWA due to the change in the federal definition of a public water system in the 1996 SDWA are also eligible for SDWSRF funding. Federally owned water systems are not eligible for SDWSRF financial assistance from the State of California. While those public water systems located on Indian reservations over which CDPH has no jurisdiction are not eligible for SDWSRF financial assistance from the State of California, Indian Tribes are eligible pursuant to SDWA Section 1452(i) for grant funding from the USEPA for public water system improvement projects.

All of the 7,800 public water systems in California are sent information, preapplication, and instructions annually during the open preapplication period in June, when CDPH begins the cycle to update the project priority listing. The process of establishing the Project Priority List is described in more detail in Section VI, Project Priority List. The 2009 Project Priority List has approximately 3,800 projects totaling \$8 billion in potential funding need. Nearly 1,700 systems have submitted one or more preapplications for SDWSRF funding.

The SDWSRF may not provide any type of assistance to a system that lacks the TMF capability to maintain SDWA compliance, unless (1) the owner or operator of the system agrees to undertake feasible and appropriate changes in operation, and (2) the use of the financial assistance from the SDWSRF will enable compliance with TMF requirements over the long-term. Further information on how capacity development is enhanced through the SDWSRF, please refer to Section IV, Set Aside Activities, Part C, Water System Capacity Development Program.

2. Eligible Projects

All eligible projects must facilitate compliance with national or State primary drinking water regulations or further the health protection objectives of the SDWA. The projects eligible by the SDWSRF loan program include those listed below:

- a *Compliance with primary drinking water standards and related public health objectives*
- b *Projects to Replace Aging Infrastructure to enhance long term reliability of drinking water infrastructure*
- c *Projects to Provide Treatment to meet drinking water standards and optimize water quality*
- d *Consolidation of water systems: improve the safety of public water supplies by enabling non-compliant systems which lack necessary technical, financial and managerial capacity to maintain compliance with the SDWA to consolidate with another water system that is in compliance with the SDWA.*
- e *Water Conservation and Security: SDWSRF can fund components to enhance the benefit of the needed project by including meters to encourage water conservation, energy conservation and reliability (e.g. auxiliary power and green power), and security (e.g. SCADA).*
- f *Land Acquisition - Acquisition of land is only eligible if it is integral to a project that is needed to meet or maintain compliance or further the public health protection of the SDWA.*
- g *Planning and Design of a Drinking Water Project – Projects to assist a water system with the costs of project planning, design and other related costs of a drinking water project. The cost to applicants of preparing environmental assessment reports may also be included as part of the cost of planning a project. The State SDWSRF regulations allow a planning loan of up to \$500,000, and to allow a grant component for planning projects.*

3. Growth

Federal and state statutes require that SDWSRF funds may not be used for projects whose primary purpose is to provide for or attract growth. SDWSRF funds pipelines designed to provide flow to meet existing maximum day demand, capacity for fire flow as required by local fire authority, and 10% for growth. A project may include a larger component if the water system identifies an alternative source of funding to cover the additional cost associated with excessive project component capacity. However, aside from required fire flow capacity, if a component is designed so that the increase in capacity exceeds existing demand, that component, or the entire project may become ineligible for SDWSRF funding.

D. Types of Financial Assistance Available

In accordance with State and federal statutes and USEPA guidance, several types of financial assistance are offered to eligible project applicants. In order to provide some flexibility for applicants, maintain SDWSRF fund long-term viability, and fund as many high priority projects as possible, CDPH has developed various terms, limitations, and conditions for use of the funds. These criteria are spelled out in CDPH SDWSRF regulations (See Appendix A). Funding assistance of any type will be offered only to projects that are within the fundable portion of the Project Priority List. To the extent feasible, CDPH coordinates SDWSRF funding with funding from other State and Federal sources. Applicants are encouraged to make maximum utilization of more appropriate funding sources. Available SDWSRF financing options are discussed below.

1. Normal Construction Loans

Normal construction loans comprise the majority of the project financing made available, and cover planning, design, acquisition, and construction costs. All of the federal rules and criteria apply to these loans for systems with more than 1,000 services. In addition, pursuant to state law, the following terms and conditions apply:

- The maximum length of the loan is 20 years or the useful life of the project, whichever is shorter (H&S Code Section 116761.22)
- The applicable interest rate is 50% of the average interest rate paid by the State on general obligation bonds issued in the prior calendar year. (H&S Code Section 116761.65).
- The maximum amount of loan financing to be awarded to a single project during any one fiscal year is \$20,000,000, except as provided in CCR Section 63012.
- In addition to the maximum loan amount per project described above, no public water system with multiple projects shall receive a total amount of loans in excess of \$30,000,000 in any one fiscal year (except to provisions of CCR Section 63012).

2. Planning Loans

Normally, project planning and preliminary engineering costs are included in a design and construction loan and reimbursed to the applicant. However, in a few cases, some smaller systems may not be able to fund the preliminary planning needed to proceed with a full design and construction loan application. In such cases, an applicant may apply for a planning loan. Applications will be evaluated for system eligibility for loan with interest, loan at 0% interest, and/or partial grant for the planning project. Receiving a planning funding, however, does not commit CDPH to future funding of the project and does not guarantee that a subsequent construction loan will be awarded. Projects receiving a planning funding will retain their place on the priority list and will need to compete with other projects for available funding at the time construction is desired. Planning loans are subject to the following terms and conditions:

- Funds may be used only for feasibility studies, project planning (including environmental documentation), and preliminary engineering. The funds may not be used for detailed design, equipment, acquisition, or construction.

- The project must be within the fundable portion of the priority list.
 - The maximum length of the loan is 5 years. The loan repayments may be combined with a construction loan should one be subsequently awarded. [H&S Code Section 116761.50 (b)(5)]
 - The applicable interest rate is for non-disadvantaged communities is 50% of the average interest rate paid by the state on general obligation bonds issued in the prior calendar year; the no interest is charged on loans to disadvantaged communities ;
 - The maximum per project planning funding is \$500,000.
 - Planning projects will be considered completed when the draft planning report is approved by CDPH (CCR Section 63011).
3. Disadvantaged Communities

As provided for by state and federal statutes, disadvantaged communities (see discussion under Section V.) may be eligible for additional financial assistance in the form of lower interest rates, extended repayment periods, or forgiveness of principal (subsidy). The typical loan terms and conditions are as follows:

- The loan repayment period is 20 years, or the useful life of the project constructed, whichever is shorter, except that a disadvantaged system may, if necessary, receive a construction loan of up to 30 years as long as this doesn't exceed the expected useful life of the project.
 - The applicable interest rate for loans to disadvantaged communities is zero percent. [H&S Code Section 116761.65 (b)]
 - The amount of additional financial subsidy (principal forgiveness – "grant") to be awarded to a single disadvantaged public water system project is based on state statute.
4. Refinancing Loans

Projects where the construction started after July 1, 1993, are eligible for refinancing (CCR Section 63000.80) under the following conditions:

- Only publicly owned public water systems are eligible.
- Only projects in categories A through G are eligible for refinancing of the outstanding balance of municipal debt;
- The loan maximums and fall within the fundable portion of the list;
- The project when constructed must have complied with all federal SDWSRF criteria pertaining to new projects.

- The California SDWSRF program will not offer funding for refinance projects while the backlog of projects in categories A through K which have not yet been provided the opportunity to apply for SDWSRF funding during the preceding two calendar years, remain unfunded.

5. Local Match Projects

State statutes allow a local agency to pay the required state match (20 %) in lieu of the state and in return receive a zero interest rate loan. In accordance with USEPA requirements, CDPH requires full payback to the State of the loan amount (a combination of state and federal funds). The SDWSRF program will work with applicants interested in this funding option.

E Application of Federal Cross-Cutters

There are numerous federal laws and executive orders that apply by their terms to projects receiving Federal financial assistance, even though that assistance may be administered by the State. Examples of these include the National Historic Preservation Act, Wild and Scenic Rivers Act, Equal Employment Opportunity executive orders, Disadvantaged Business Enterprise, and the Endangered Species Act. As the administering agency of California's DWSRF, CDPH has the responsibility to ensure that applicants adhere to the requirements of these crosscutting laws and orders.

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Projects supported with funds directly made available by USEPA capitalization grants (i.e., projects funded in amounts equaling the grant), sometimes known as "equivalency projects," must fulfill the Federal crosscutting requirements. CDPH retains the discretion to determine which projects are treated as non-equivalency projects. CDPH designates projects of smaller systems as non-equivalency since smaller systems more often lack the expertise necessary to comply with the more demanding federal equivalency requirements. CDPH establishes a cutoff based on the size range and project funding requests anticipated in the funding year pool of SDWSRF projects that will be invited to complete the application process.

Non-equivalency projects are required to undergo a tier two environmental review, as explained in a later section. Applications sent to water systems seeking funding for projects determined to be non-equivalency projects explain in detail the requirements applicable to those projects. When projects whose cumulative funding exceeds the amount of the Federal capitalization grant are treated as equivalency projects, the excess is banked for use in future years.

It should be noted that all projects and activities funded with SDWSRF funds are subject to federal anti-discrimination laws, including title VI of the Civil Rights Act of 1964, section 504 of the Rehabilitation Act of 1973, and the Age Discrimination Act of 1975. CDPH includes standard provisions concerning these cross cutting laws in all funding agreements and service contracts.

State regulations direct CDPH to establish the threshold for projects subject to federal cross-cutting requirements in each IUP. This process enables CDPH to set the size of systems and the cost of projects which will be exempt from federal cross-cutting requirements periodically. For invitations sent by the SDWSRF in State Fiscal Year 2009-2010, pursuant to this IUP, federal cross cutting requirements will be applied to applications from systems serving over 1,000 service connections and to all projects for more than \$1,250,000. Funding exempt from federal cross cutting requirements is subject to the availability of funds in the California SDWSRF not subject to such requirements, i.e. state match funds equivalency, repayment of SDWSRF loans, and interest or penalties available in the SDWSRF revolving fund.

IV. SET-ASIDE ACTIVITIES

The federal SDWA provides for a variety of activities to be funded from the SDWSRF using "set-aside" funds to be deposited into separate accounts. CDPH plans to utilize 13% for set-aside programs not directly funding water system projects. Funds from the FFY 2008 and FFY 2009 DWSRF awards will be used as follows: (1) SDWSRF administration costs (4 %) (2) small water system technical assistance program (2 %), (3) water system capacity development program (3.6 %) and (4) program management related to PWSS (3.7%). Following is a brief description of each of the proposed set-aside program elements.

A. Program Administration Element

The full cost of administering the Fund, including the development of the priority list, the review and processing of applications from local agencies, management and oversight of individual projects, management of contracts with cooperating agencies, all accounting and legal costs are funded by this set-aside. CDPH does not anticipate instituting any type of loan fee as long as capitalization grants continue to be available. Therefore, there should be no State administrative cost to a local agency to apply for and secure funding from this program. Public water systems are not be billed for time expended in reviewing and processing applications, although this is allowed by state statute (H&S Code Section 116565).

CDPH will use the full 4% allowed for the administration set-aside funding to support staff within CDPH and to cover the costs of the interagency agreements with DWR and the external audit contract. The administrative set-aside supports a number of staff in the SDWSRF headquarters office, including those providing environmental review, capacity development, technical assistance, state program management, and administrative support of SDWSRF contracts, fiscal, and program management and personnel needs. CDPH utilizes a detailed time-accounting system to track hours devoted by staff to the SDWSRF program elements. This time accounting system forms the basis for personnel costs drawn from the set asides for SDWSRF administration, technical assistance and capacity development. DWR provides fiscal oversight of SDWSRF loans and grants for CDPH SDWSRF.

A portion of the Administration set aside is used to fund positions of the SDWSRF Fiscal Support Team in the Accounting Section of the CDPH Administration functional area. The senior accounting officer and the accounting technician handle CDPH responsibilities for loan claims payments, accounting of the various functional subaccounts through which the various set-asides are tracked, and semi-annual billing for interest and principal to funding recipients. The SDWSRF Fiscal Support Team coordinates closely with the SDWSRF program manager, and with DWR. The Fiscal Support Team provides the point of contact

with the State Controller's Office, and may consult on matters related to the sale of State bonds providing state matching funds.

CDPH provides information to the DWNIMS, and meets other USEPA reporting requirements. USEPA uses this data to assess the program on a national basis and to monitor state progress. USEPA's regional offices use the information to assist in conducting their annual review of the state program to assess state compliance with the annual grant agreement, including compliance with special federal requirements and limitations on use of SDWSRF funds, including recipient and project eligibility and the type of assistance provided, and assess the state's progress in specific tasks identified in the IUP,

CDPH utilizes SDWSRF administrative funds to support several data management positions and activities, which in turn support the California's SDWSRF program. These data management resources are directed to maintenance and enhancement of a data management resources necessary for program management, including the database for maintaining the SDWSRF project priority list. SDWSRF administrative funds also enabling the adaptation of the Loan Grants and Tracking System (LGTS) into the overall SDWSRF data process. The LGTS system is utilized by the SDWSRF headquarters staff in the processing and tracking of financial data relevant to the goals of the DWSRF program, the supporting Accounting team, and DWR in support of the SDWSRF program activities. The ultimate purpose of the implementation is to provide a reliable integrated mechanism for financial tracking that has proven to be acceptable to federal EPA on financial audits of similar programs.

B. Small Water System Technical Assistance Program Element

California has nearly 7,400 small public water systems (systems serving a population of less than 10,000). Many of these small systems struggle to comply with regulations and meet operational requirements because the staffs lack the technical capability to be able to comply with the complex requirements of the SDWA. The CDPH, with assistance of local primacy agencies (LPAs), relies on small water system set aside funding to support water program specialists and engineers to aide these small systems. CDPH will allocate the maximum allowable amount of 2% of the FFY 2008 and FFY 2009 DWSRF federal allocation for this purpose. CDPH uses these funds to provide additional in-house technical staff and to contract with outside contractors to provide a variety of technical services to small systems.

The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the systems; and (4) establishing or improving the financial, technical, and managerial capability of the systems. This program is directed at those systems serving a population of less than 10,000, with much of the emphasis given to the 1,000 community water systems serving less than 200 service connections.

One of the areas of priority is to assist small systems in the preparation of applications for SDWSRF funding. Preparing these applications, particularly the development of environmental documentation and preliminary engineering, is beyond the technical and financial capability of many systems. The CDPH, with the help of third party contractors will provide some of this assistance.

The SDWSRF maintains an "Assistance Referral List." Systems are placed on this list by CDPH Drinking Water Program field staff and LPA staff. Systems are then provided specific assistance by SDWSRF small water system specialists or via SDWSRF sponsored technical

assistance provided by Rural Community Assistance Corporation (RCAC) and California Rural Water Association (CRWA). SDWSRF small water system specialists hold quarterly meetings with CRWA, RCAC, and other technical assistance providers, such as Sacramento State University. These meetings provide the opportunity to identify and implement more effective and meaningful methods of providing technical assistance to smaller and disadvantaged systems.

In addition to the above, the small system technical assistance program will focus on the following activities: (1) Correction of existing or pending violations and other operational problems; (2) Optimizing treatment of source water; (3) Development of distribution system operational plans and emergency preparedness/disaster response plans; (4) Training for water treatment operators and water distribution operators; and (5) Training and information resources for water system managers related to budgeting, rate setting, and capital improvement planning.

C. Source Water Protection (SWP) Loans

CDPH may set aside funds for this purpose from future grant applications depending on the interest for such funding.

D. State Program Management

1. Water System TMF Capacity Development

Water system personnel are faced with technically complex drinking water requirements. Many individuals have difficulty understanding and complying with the increasingly complex regulatory and operational requirements. Water system capacity is defined as the technical, managerial, and financial (TMF) elements that could enable a system to provide safe and reliable drinking water that meets all standards. During the formative years of the California capacity development program CDPH received input from field staff, public water systems, concerned agencies, and interested organizations in identifying TMF capacity criteria that reflect a water system's capacity to sustain viability.

CDPH has the necessary statutory authority (H&S Code Section 116525) and control points (Set forth in H&S Code Section 116540) providing the authority to issue or deny a permit to operate a public water system.

In order to implement capacity development activities, CDPH will allocate 3.6% (\$2.4 million) from the FFY 2008 and FFY 2009 DWSRF federal SDWSRF capitalization grants for the capacity development set-aside. By assisting systems to recognize and address their TMF capacity deficiencies, the capacity development program seeks to improve the systems' operational programs to assure that acceptable levels of operation can be met and sustained.

CDPH plans to continue the use of third-party contractors who offer personnel with specialized small water system expertise to assist small water systems in developing their TMF capacities. These third-party contractors will present workshops throughout the state regarding the TMF elements. They will conduct median household income surveys for potentially disadvantaged small water systems when directed by CDPH. In addition, third-party contractors will provide technical assistance directly to small water systems that have been referred by the regulatory staff. These specialists will provide on-site consultation customized to the water system's specific needs with regard to the development of TMF capacity.

An on-line baseline assessment entitled the TMF Tune-up has been developed. CDPH will develop strategies to encourage water systems to complete the TMF Tune-up and will use the statistical information obtained to evaluate the effectiveness of the set-aside programs. A portion of the set-aside funds will support the development of a courses that would satisfy the high school diploma requirement for operator certification.

CDPH also provides preliminary engineering assistance through U.C. Davis "Center for Appropriate Technology for Small Water Systems". The contract will provide engineering services to small systems that lack the funds and expertise to obtain these services on their own. Preliminary engineering reports will be provided for identified high priority small and disadvantaged systems projects to move them through the funding process. U.C. Davis will also provide a class directed toward small systems and overcoming engineering problems, hurdles and barriers common to those small systems. They will also provide research to investigate potential solutions and /or treatment technologies to address the current regulatory challenges facing small water systems with the new arsenic regulations, surface water regulations and the growing nitrate problems throughout the state.

2. Public Water System Supervision (PWSS) Activities

CDPH will allocate 3.7% (\$2,482,164) from the FFY 2008 and FFY 2009 DWSRF federal SDWSRF capitalization grant for PWSS. CDPH uses the set aside for Public Water System Supervision (PWSS) related activities to ensure adequate resources for oversight of all water systems in California. A detailed workplan for this set aside is provided separately. In general, the funds are used to support field staff activities including (1) inspections and surveys of water systems to evaluate treatment and infrastructure improvement needs, with particular emphasis on disadvantaged and small community water systems; (2) review of plans and specifications, particularly in relation to for conformance with treatment requirements; (3) to provide technical assistance to managers and operators of public water systems, and (4) emergency preparedness and disaster response activities..

The 1996 SDWA amendments included specific requirements for certification of water treatment operators and water distribution system operators. CDPH has met the federal requirement for the statutory, regulatory and programmatic requirements for water treatment and distribution system operator certification. California regulations requiring certification of distribution system operators became effective January 2001, and were approved by USEPA later that year. As a result, each individual who makes decisions addressing the operational activities of a public water system in California must possess a distribution operator certificate. As of December 2008, nearly 12,000 operators hold full water distribution certification in California. In the absence of comparable State operator certification requirements, a portion of the state SDWSRF Capitalization Grant could be withheld by USEPA. CDPH includes conformance with water operator certification requirements during the annual reviews and/or inspection of each water system. Operator certification is also a key element of TMF capacity review.

Those public water systems which only disinfect the source water, in which the source water is not subject to Giardia or virus contamination, may be operated by a certified distribution operator, rather than a certified water treatment operator. CDPH drinking water program field office personnel evaluate and classify each public water systems' water treatment facilities and each public water systems' distribution systems based on federal guidance. Nearly 2,900 facilities have been classified as requiring certified water treatment operators. As of December 2008, nearly 12,000 individuals hold

full water treatment operator certification in California. A copy of the Annual Report of the California Operator Certification Program is provided in Appendix F.

Federal and State requirements for water treatment operator and water distribution operator certification and renewal include ongoing continuing education requirements to ensure that individuals responsible for the quality, safety, and reliability of domestic water supplies maintain their knowledge and skills. CDPH has received funding from the USEPA for the Operator Certification Expense Reimbursement Grant which will reimburse operators of small water systems (serving no more than 3,300 population) for the expenses related to training, certification, and renewal. In addition, CDPH staff work with California Rural Water Association (CRWA), Rural Community Assistance Corporation (RCAC), and the Water Operator Training Program of Sacramento State University to improve coordination of training opportunities. Monthly meetings are planned to allow active review and adaptation of focused training developed for operators and managers of smaller water systems.

V. DISADVANTAGED COMMUNITIES

California statutes and regulations provide additional financial assistance to “disadvantaged communities” if such communities cannot afford to repay the full amount of the loan needed to fund the proposed project. Disadvantaged communities are defined as those communities whose median household income (mhi) is below 80% of the statewide mhi. For example, in 2009 the median household income (mhi) in California is \$58,414, and projects for communities with mhi below \$46,731 receive consideration under the disadvantaged criteria. The interest rate to disadvantaged communities is set at zero % (H&S Code Section 116761.65). The assistance may include extending the repayment period to 30 years (but not to exceed the design life) as allowed in the federal act. In addition, for community water systems owned by a public agency or a not-for-profit entity and serving a disadvantaged community, State regulations allow forgiveness of up to 80% of the loan principal. The service area affected by the project must meet the criteria for a disadvantaged community in order for the project to be eligible for consideration for these special financial assistance measures. The provisions of State regulations allow for assistance so that the resultant water rate to the average residential user is no higher than 1.5% of the median household income (MHI) for the community.

Meeting the criteria of a disadvantaged community is the first step in receiving additional financial assistance. SDWSRF determines any grant (principal forgiveness) component to the assistance offer after evaluating the disadvantaged community’s ability to repay a loan. Thus, factors such as household income levels, current and projected monthly consumer water charges, and the cost of the proposed project become determining factors when establishing disadvantaged status and determining the SDWSRF funding offer (loan, or loan and grant).

The determination as to whether a disadvantaged community qualifies for additional financial assistance will not be made until DWR completes its evaluation of the revenue program, project costs, and other financial information contained in the full project application. Therefore, while a public water system may be able to determine in advance whether or not they qualify as a disadvantaged community, they will not know if additional financial assistance will be provided (subject to the limitations described in Section III.D.3.) until the full application process is completed.

CDPH assists economically disadvantaged communities in resolving serious drinking water problems consistent with legislative direction. However, the excessive awarding of subsidies would undermine the primary objective of the program, which is to establish a long-term self-sustaining revolving loan fund. Funds given out in the form of additional subsidy (loan forgiveness) are not returned to the fund in the form of repayments, and so reduce the future ability to fund SDWSRF projects. CDPH has balanced these two objectives to meet the overall need of the program. An ongoing and viable loan program is in the best interest of both financially stable and economically disadvantaged communities.

VI. PROJECT PRIORITY LIST

In accordance with federal requirements, all potential recipients for SDWSRF funding must have had their projects included on a statewide Project Priority List. CDPH developed a 2009 Project Priority List which was finalized in September 2009; this list will be used for obligating SDWSRF funds from the federal allocation addressed by SFY 2009-2010 IUP. Operationally, CDPH merges projects that are on an existing priority list with new applications when establishing an updated project priority list. This eliminates the need for many applicants to resubmit applications each list revision cycle. The Final Project Priority List to be used for the FY 2009 allocation is attached as Appendix D.

Placement of a project on the priority list does not guarantee that a project will be funded. However, only those projects that are included on the priority list will be considered for possible funding. Projects may only be added to a priority list during the annual public hearing and adoption process. Pursuant to state statutory authority, CDPH may revise the ranking of a project on an existing priority list at any time if information affecting the ranking of that project becomes available that was not available at the time the list was adopted.

A. SDWSRF Project Priority Ranking Criteria

1. Health Risk and Safe Drinking Water Act Compliance Categories

As required by federal and state law, water system projects are offered SDWSRF funding based on a Project Priority List developed by the CDPH. In establishing the priority list, CDPH ranks projects in order of the degree of health risk associated with the problem that the proposed project is intended to solve. Thus, the projects solving the most serious health risk and SDWA compliance problems receive the highest ranking. When ranking projects, within a category CDPH places smaller systems higher on the list within the category than larger systems, and, within each category, places systems with lower median household income (MHI) ahead of non-disadvantaged systems. The categories that have been established by CDPH are briefly summarized below (a more detailed description of the categories is included in Appendix A).

<u>SRF Category</u>	<u>Description</u>
A	Projects: (1) to correct ongoing problems that have resulted in documented waterborne disease outbreaks that are attributable to the water system; or (2) to comply with a court ordered compliance involving (a) a violation the federal or state SDWA, or (b) water outage problems. Water systems with deficiencies that have resulted in documented waterborne disease outbreak illnesses that are attributable to the water systems, or water systems under a court order to correct SDWA violations and/or water outage problems.
B	Projects to correct coliform bacteria contamination of an active water supply source that is resulting in repeated violations of the coliform bacteria Maximum Contaminant Level (MCL). Water systems that have repeatedly violated the total coliform MCL (TCR) due to active sources contaminated with coliform bacteria (fecal, <i>E. coli</i> , or total coliform)
C	Projects to provide treatment for an unfiltered surface water supply source; or to correct an active untreated groundwater source that is contaminated with fecal coliform or <i>E.coli</i> . Water systems which have (1) a surface water supply, or a groundwater under the direct influence of surface water (GWUDI) source, that is not filtered, or untreated; or (2) non-GWUDI well sources that are contaminated with fecal coliform or <i>E. coli</i> .
D	Projects to correct ongoing violations of the State or Federal regulations concerning surface water treatment requirements; or to correct an active groundwater source that is contaminated with fecal coliform or <i>E.coli</i> and is inadequately treated, including uncovered treated water reservoirs. Water systems that have (1) surface water sources or GWUDI sources with filtration treatment deficiencies that violate federal or state regulations concerning surface water treatment requirements; or (2) non-GWUDI wells that are contaminated with fecal coliform or <i>E. coli</i> and are inadequately treated
E	Projects to correct water outage or severe water shortage problems caused by source water capacity or water delivery capability that is insufficient to supply current demand. Water systems with water outages or significant water quantity problems caused by source water capacity or water delivery capability that is insufficient to supply current demand.
F	Projects to correct: (1) current nitrate/nitrite contamination in excess of the State or Federal MCL in the water being distributed to consumers; or (2) distribution system problems resulting in ongoing violations of the Total Coliform Rule. Water systems that (1) <u>distribute</u> water containing nitrates/nitrites in excess of the MCL; or (2) distribute water containing perchlorate in excess of the MCL; or (3) water systems that are in violation of the Total Coliform Rule for reasons other than source contamination.
G	Projects to correct an ongoing chemical (other than nitrate/nitrite) or radiological contamination exceeding a State or Federal primary MCL in the water being distributed to consumers. Water systems that <u>distribute</u> water containing chemical or radiological contamination exceeding a State or Federal primary drinking water standard.
H	Projects to correct (1) distribution reservoirs with non-rigid covers and those to correct (2) water systems which do not provide meters for the water delivered to customers
I	Projects needed to comply with federal or state treatment or monitoring requirements related to disinfectants or disinfection by-products; or projects needed to comply with the California

<u>SRF Category</u>	<u>Description</u>
	Cryptosporidium Action Plan. Water systems which comply with surface water treatment requirements, but are not in conformance with the California Cryptosporidium Action Plan
J	Projects to correct violations of the Water Works Standards that could result in the entry of wastewater into the water supply or distribution system.
K	Projects: (1) to improve or correct disinfection facilities that lack needed reliability features, chlorine residual analyzers, or alarms, or (2) to correct other disinfection deficiencies that violate the Water Works Standards or other State regulations.
L	Projects to: (1) provide treatment to correct an existing and ongoing violation of the iron or manganese secondary standard for which a compliance order has been issued; (2) treat water which exceeds a Department published chemical Notification Level as distributed; (3) distribute water which has exceeded a primary drinking water standard in one or more samples, but has not violated the standard (for a running average standard); or (4) need treatment for a standby groundwater source that is contaminated in excess of a primary MCL.
M	Projects to correct an existing violation of any Water Works Standard other than that described in categories J or K; or to correct an ongoing TMF deficiency of a water system that does not have a project ranked in any of the above categories.
N	Projects to correct a violation of a secondary standard other than iron or manganese.
O	Projects to correct water system deficiencies needed to improve the quality of the water or the water delivery system that are not covered by other categories.

In general, CDPH considers priority categories A through G to be high priority, categories H through K to be medium priority and categories L through O to be low priority. A description of the criteria used to rank SDWSRF project is presented in Appendix A.

2. Bonus Ranking Points

Bonus points are used in ranking projects within a category. The addition of bonus points will not move a project from one category to another. This point is stressed more than once in this document to emphasize that the category in which a project is placed is much more important, for funding concerns, than is the assignment of bonus points. To the extent feasible, when a group of systems is invited to complete the application process for SDWSRF funding, all the systems within that category seeking funding that year are invited.

a. Affordability

CDPH factors in affordability by comparing the MHI of the community served by the proposed project to the statewide MHI level. Communities that are below the statewide average MHI level receive additional ranking consideration. This gives poorer communities a higher ranking within a category than communities with higher income levels do. Additional affordability ranking points will be granted as follows:

MHI of Service Area	Ranking Points
Greater than statewide MHI	0
90%-100% of statewide MHI	5
80%-89% of statewide MHI	10
70%-79% of statewide MHI	15
60%-69% of statewide MHI	20
Less than 60% of statewide MHI	25

b. Consolidation

For purposes of ranking projects within a category, any project that includes consolidation of separate existing water systems will receive additional ranking points. Consolidation points support projects which will provide reliability, efficiency, and economy of scale that can be achieved with larger water systems while discouraging the proliferation of numerous separate small systems with their inherent inefficiencies and limitations.

Consolidation type	Consolidation ranking points
Managerial consolidation of 2 or more systems	10
Physical consolidation of 2 or more systems	20

3. Type of System

Because there is a relatively higher health risk associated with persons who drink the same water each day over a period of time (accumulated exposure), community and non-transient non-community water systems are ranked above transient noncommunity systems within a category.

4. Population

Award of additional points for affordability and consolidation affects the ranking of a project within a category, but does not result in a project being elevated to a higher category. All projects within a category that have the same number of ranking points are ranked in ascending order based on the population served by the water system with smaller populations ranked above higher populations. This allows smaller communities that have a more difficulty obtaining financing an opportunity to compete with much larger systems for available state financing.

The California enabling legislation emphasizes that the degree of health risk, compliance with the SDWA, and affordability are the primary criteria for ranking projects. The ranking criteria described in this section accomplish this.

B. Source Water Protection Program Project Ranking Criteria

[CDPH will be reevaluating its strategy for implementation of the source water protection program including source protection project funding during the period covered by this intended use plan]

1. Protection of Water Source from Contaminants Posing a Health Risk

The following categories are used for ranking SWP projects:

<u>SWP Category</u>	<u>Source Water Protection Project Description</u>
SWP-A	projects that address microbial contaminants associated with potential contaminating activities (PCAs) located in Zone A of a SWP area for a ground water source, or located in Zone A or B of a SWP area for a surface water source if zones have been established
SWP-B	Projects that address nitrate associated with PCAs located in Zone A for a ground water source.
SWP-C	Projects that address nitrate associated with PCAs located in Zones B5, B10 and/or a recharge area for a ground water source.
SWP-D	projects that address disinfection byproducts and/or chemicals associated with PCAs located in Zones A and/or B5 for a ground water source, or located in Zones A and/or B for a surface water source if zones have been established
SWP-E	Projects that address disinfection byproducts and/or chemicals associated with PCAs in Zone B10 of a ground water source.
SWP-F	Projects that address disinfection byproducts and/or chemicals associated with PCAs in the watershed of a surface water source.
SWP-G	Projects that address disinfection byproducts and/or chemicals associated with PCAs in the recharge area of a ground water source.
SWP-H	Projects that address microbial contaminants associated with PCAs located in Zone B5 and/or B10 for a ground water source, in the recharge area of a ground water source, or in the watershed of a surface water source.
SWP-I	Projects that address microbial contaminants, nitrate, or disinfection byproducts and/or chemicals associated with PCAs in the buffer zone of a ground water source, if a buffer zone has been established.

C. Process for Adoption of the SDWSRF Priority List

The ranking of projects on the Project Priority List is based on the submission of a pre-application by public water systems using the online Universal Preapplication process. Announcement notice of the annual open preapplication period is provided via the internet and by mail to public water systems throughout California. The preapplication period is open for at least one month each summer. Water systems are not limited in the number of projects they submit. In fact, systems were encouraged to submit separate pre-applications for each separate water problem faced by the system. The 2009 Final Project Priority List includes nearly 4,000 projects representing over \$8 billion. Following receipt of the pre-applications, CDPH staff review each project and the project is ranked into the appropriate category. Any bonus points are assigned and the applicant is informed of the category ranking. The pre-application information is added to the database from which the statewide Project Priority List is developed.

Beginning with the 2009 preapplication cycle, an online Universal Preapplication available for all CDPH funding programs is being utilized. Preapplications are evaluated and added to each program priority list with which the proposed project is aligned. In addition to individual water system notification, and posting on the Internet for public availability, a public hearing is held in Sacramento. A 30-day period is provided for public comments on the draft update of the SDWSRF Project Priority List, and the SWP Project Priority List. The Updated SDWSRF Project Priority List is then adopted. The Final 2009 Project Priority List is included as Appendix D.

D. Use of the Project Priority List

As indicated earlier, the Project Priority List forms the basis for determining which projects will receive funding. To the extent feasible, projects will be funded in descending order of their placement on the priority list. However, due to the federal deadlines on obligation of the available funds, projects that are not ready to proceed may be by-passed for that particular funding cycle. Any project that is by-passed will retain its position on the priority list and be eligible for the next funding cycle.

Following adoption of the priority list, CDPH will determine which projects have indicated an immediate "readiness to proceed." Readiness to proceed means an ability and willingness to enter into and sign a loan commitment by the deadlines established by CDPH for that funding year. The projects that are ready to proceed will be separated into large water system (serving 10,000 or more persons) and small water system (serving less than 10,000 persons) lists. Based on the amount of funding available, CDPH will determine which portion of the Project Priority List will constitute the "fundable" portion of the list for that particular funding cycle.

While the fundable project list will include small and large systems, CDPH will identify a number of large systems that together represent approximately 300% of the funds available for large systems for that year. This group of large systems will constitute the working list of large systems. The purpose of this working list of large systems is to ensure that there are enough projects ready to proceed at the time CDPH initiates the funding by-pass procedures.

Similarly, CDPH will identify a number of small systems that together represent over 300% of the funds available for small systems for that year. A higher percent goal is generally used for small systems due to the higher drop out rate for small systems. This group of small systems will constitute the *working group* of small systems. The purpose of this list is to ensure that there are enough projects ready to proceed at the time CDPH initiates the funding by-pass procedures.

All projects in the working list of large and small systems will be invited to submit a full application for funding from the 2009 funds. The SDWSRF proposed Fundable List for 2009 funding is provided in

Appendix F. Applications received from large and small systems in the working list, but not in the fundable project list, are processed as received but funding commitments are not made until after the by-pass procedures have been initiated, and will be made in order of priority in the Multi-Year Project Priority List. The by-pass procedures occur at multiple times and points in the process. Accordingly, the working list as well as the fundable list will be adjusted periodically based on the by-pass results. A revised fundable list will be submitted to USEPA as revisions are made.

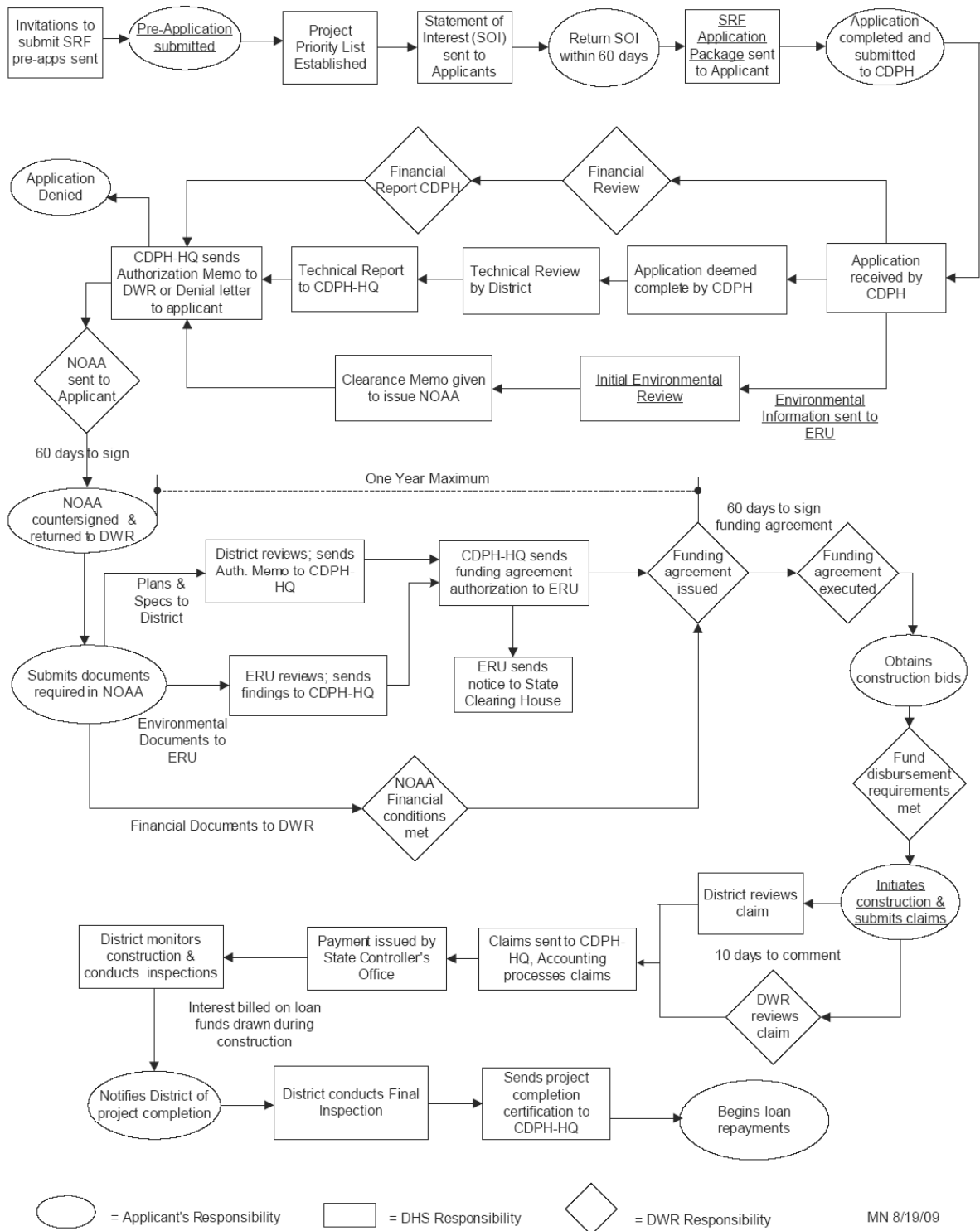
As required by the federal guidelines, CDPH will annually establish a small water system funding reserve. The purpose of the small system reserve is to ensure that small systems do not have to compete with large water systems for available funds and thus would have more time to develop and submit applications without fear of losing funds to larger systems that may be ready to proceed at an earlier date. The amount of the annual small system reserve will be a minimum of 15% of the total funding available for financing projects. A Conceptual Flowchart of the SDWSRF Project Funding Process is provided in Figure 2.

E. Project By-Pass Procedures

As indicated, it may be necessary from time to time for CDPH to by-pass a project on the priority list in order to fund a lower ranked project. This is essential to meet the federal funding obligation deadlines and avoid loss of funds. Projects will be by-passed only under one or more of the following conditions:

1. The applicant indicates on the pre-application form that they do not desire or will not be able to receive funding in the current funding year. This project will be by-passed automatically for the current year.
2. Upon receiving an invitation from CDPH to submit a full application, the applicant notifies CDPH that they do not wish to submit an application at this time or that they cannot meet the application submittal deadline.
3. The applicant fails to submit the full application by the deadline established by the CDPH.
4. A full application is rejected by CDPH and a revised application cannot or will not be resubmitted within the deadlines established by the CDPH.
5. CDPH determines (and has notified the applicant) that the applicant does not (or will not) meet the TMF capacity requirements and is thus ineligible.
6. The water system is in "significant noncompliance," and it is determined that the project will not return the system to compliance with the SDWA.
7. Upon receiving a preliminary letter of commitment [Notice of Application Acceptance] from the CDPH, the applicant fails to sign and return the letter by the deadline established by the CDPH.
8. The applicant fails to submit plans and specifications for the project by the deadline established by CDPH and the initial loan offer is withdrawn.

Figure 2
SDWSRF Funding Process – Conceptual Flowchart
Complete SRF Process- Phases I, II, III



9. The applicant has reached the \$30 million annual per applicant loan cap. All other projects for the applicant that would exceed the \$30 million cap will be by-passed, except as provided in regulations (Appendix B).
10. Projects which are invited for two consecutive invitation cycles, and which fail to respond to such correspondence, will be bypassed for subsequent invitation cycles until such time as the system indicates that it is ready to proceed if invited to apply for SDWSRF funding.

Applicants whose projects are, or will be, by-passed are notified. Any project that is by-passed will retain its position on the current priority list and will be eligible for potential funding in the following fiscal year.

VII. PUBLIC PARTICIPATION

The guidelines provided by the USEPA require that states seek meaningful public review and comment on its funding decisions in the SDWSRF Intended Use Plan. CDPH has involved numerous groups and individuals in the development of the ranking criteria and program components. This section provides a summary of CDPH efforts to involve the public in the development of the SDWSRF program.

A. SDWSRF Program Development

CDPH met monthly with the "DWSRF Interest Group" during the development period of the SDWSRF program. Members of this group represent water associations, state and federal agencies, and other stakeholders who have an interest in the development of the DWSRF. The members of this group reviewed early drafts of the pre-application form, ranking criteria, Project Priority List and the IUP. Each member of the group commented on behalf of their own organizations or individual concerns rather than as a team. Thus, each was able to make CDPH aware of the needs and concerns of their own constituency groups. A list of the members of the SDWSRF Interest Group has been previously submitted to the USEPA.

During 2009-108, CDPH plans to convene the internal SDWSRF policy committee at least quarterly to discuss program progress and potential modifications. In addition, CDPH plans to hold at least two round-table meetings with water system representatives and other interested parties each year. These internal and external groups may evaluate current program or potential modification of the program structure or resource utilization. Topics recommended for consideration include ranking and bonus point criteria, strategies to increase funding to small and disadvantaged systems, and set-aside activities.

B. Project Priority List and the Intended Use Plan (IUP)

Announcement of the draft version of each year's draft IUP and each Project Priority List is posted copies on the CDPH internet web site. Copies of the draft documents are available for download and review by all interested parties on the CDPH SDWSRF program website. Comments are accepted for 45 days, and a public comment hearing is conducted. Comments are accepted by the SDWSRF in writing (by mail or fax), via email to a SDWSRF program email site, or in person at a public hearing conducted for this purpose. A summary of the comments received on the draft SDWSRF IUP and PPLs, and CDPH response is provided in Appendix G.

C. Source Water Assessment and Protection (SWAP)

The comprehensive description of California's SWAP is contained in the CDPH Drinking Water Source Assessment and Protection Program report, dated January 1999, which has been submitted previously. CDPH representatives have numerous opportunities to receive input from the water community when making presentations and participating on professional committees at meetings of groups such as the Groundwater Resources Association, the California Environmental Health Association, the Association of California Water Agencies, and CALFED Bay-Delta Project committees.

Drought Planning – Water Efficiency: In 2009-2010, CDPH representatives will continue actively participating in development of the update to the State Water Plan, particularly with respect to water resources management policy impacts on public water supplies and public health and safety.

D. Small Water System Technical Assistance

The small water system technical assistance program strategy was developed with the assistance of interested groups such as California Rural Water Association, Rural Community Assistance Corporation, Community Development Block Grant program, California Conference of Directors of Environmental Health (CCDEH), local environmental health agencies, Self-Help Enterprises, American Water Works Association and others. Funding workshops providing an introduction to a variety of state and federal infrastructure funding programs are held throughout the state each year. These provide small water system representatives the opportunity to provide direct feedback to SDWSRF program representatives.

E. Outreach

In addition to the committees and public meetings described above, the SDWSRF staff continues to provide updates on the program to various meetings and conferences. This outreach helps to ensure that the interested public has ongoing opportunities to influence the SDWSRF program to better meet the intended goals. In addition, the SDWSRF will be utilizing the input of the standing advisory committee established for implementation of the Prop 50 grant funding program. This committee will be used to assist in steering all CDPH water system funding programs including the SDWSRF.

Appendix A SDWSRF Ranking Criteria

CATEGORY A:

Definition: Water systems with deficiencies that have resulted in documented waterborne disease outbreak illnesses that are attributable to the water systems, or water systems under a court order to correct SDWA violations and/or water outage problems.

CATEGORY B

Definition: Water systems that have repeatedly violated the total coliform MCL (TCR) due to active sources contaminated with coliform bacteria (fecal, *E. coli*, or total coliform)

CATEGORY C

Definition: Water systems which have (1) a surface water supply, or a groundwater under the direct influence of surface water (GWUDI) source, that is not filtered, or untreated; or (2) non-GWUDI well sources that are contaminated with fecal coliform or *E. coli*.

CATEGORY D

Definition: Water systems that have (1) surface water sources or GWUDI sources with filtration treatment deficiencies that violate federal or state regulations concerning surface water treatment requirements; or (2) non-GWUDI wells that are contaminated with fecal coliform or *E. coli* and are inadequately treated.

CATEGORY E

Definition: Water systems with water outages or significant water quantity problems caused by source water capacity or water delivery capability that is insufficient to supply current demand.

CATEGORY F

Definition: Water systems that (1) distribute water containing nitrates/nitrites in excess of the MCL; or (2) distribute water containing perchlorate in excess of the MCL; or (3) water systems that are in violation of the Total Coliform Rule for reasons other than source contamination.

CATEGORY G

Definition: Water systems that distribute water containing chemical or radiological contamination exceeding a State or Federal primary drinking water standard.

CATEGORY H

Definition: Water systems with reservoirs with floating covers that are in active use; or water systems which do not provide meters for the water delivered to customers.

CATEGORY I

Definition: Water systems which comply with surface water treatment requirements, but are not in conformance with the California Cryptosporidium Action Plan.

CATEGORY J

Definition: Water systems that are in violation of those portions of the Water Works Standards that could result in the entry of wastewater into the water supply or distribution system.

CATEGORY K

Definition: Water systems that operate disinfection facilities that lack needed reliability features, chlorine residual analyzers and alarms or have other disinfection deficiencies that violate the Water Works Standards.

CATEGORY L

Definition: Water systems that: (1) distribute water in excess of the iron or manganese secondary standard and for which a compliance order has been issued; (2) distribute water in excess of a Department published chemical Notification Level; (3) distribute water which has exceeded a primary drinking water standard in one or more samples, but has not violated the standard (for a running average standard); or (4) need treatment for a standby groundwater source that is contaminated in excess of a primary MCL.

CATEGORY M

Definition: Water systems that do not meet the Water Works Standards (other than those components already covered by the above listed categories) and water systems that do not meet the TMF (technical, managerial, and financial) criteria but do not have a project in any of the above categories.

CATEGORY N

Definition: Water systems that distribute water that exceeds secondary standards.

CATEGORY O

Definition: All water system deficiencies that are eligible and are not covered in any of the above categories.

Appendix B SDWSRF Regulations

California Code of Regulations As Amended March 2009 Chapter 12. Safe Drinking Water Project Funding

Article 1. Definitions

Section 63000.10. Applicant.

"Applicant" means a public water system that is applying for funding from the State Revolving Fund.

Section 63000.13. CEQA.

"CEQA" means the California Environmental Quality Act and the regulations and guidelines adopted by the California Resources Agency to implement that Act.

Section 63000.16. Completion of Project.

"Completion of Project" means, in the case of a construction project, that the Department has conducted a final inspection of the project and has notified the water system that project construction has been completed in conformance with the plans and specifications identified in the funding agreement for compliance with Health and Safety Code Part 12, Chapter 4, Section 116270 et seq, and related regulations. In the case of a planning project, completion of project means that the Department has received and approved the planning report.

Section 63000.17. Consolidation Project.

"Consolidation project" means a project that involves the restructuring of two or more water systems into a single public water system through physical consolidation of the water systems.

Section 63000.19. Construction Funding.

"Construction Funding" means a loan and/or grant to cover the cost of planning, preliminary engineering, design, acquisition of water systems, purchase of land or equipment, and construction or consolidation of a water system project.

Section 63000.25. Disadvantaged Community.

"Disadvantaged Community" means a community whose median household income is less than 80 percent of the statewide median household income.

Section 63000.28. Drinking Water Standards.

"Drinking Water Standards" means all drinking water requirements set forth in the California Safe Drinking Water Act (section 116275 et. seq. Health and Safety Code) and the regulations adopted by the Department pursuant thereto.

Section 63000.31. Eligible Project Cost.

"Eligible Project Cost" means those costs of a proposed project that are deemed by the Department to comply with the eligibility criteria set forth in section 63010.

Section 63000.34. Federal Cross-Cutters.

"Federal Cross-cutters" means those federal laws, regulations, policies and executive orders listed in Appendix VII of the USEPA program guidelines.

Section 63000.35. Federal Funding Allocation.

"Federal Funding Allocation" means the capitalization grant awarded by the USEPA to the Department from a specific federal fiscal year allocation.

Section 63000.40. Funding Application.

"Funding Application" means the appropriate application form to be submitted by an applicant for State Revolving Fund funding. The application forms are: Application Cover Sheet [DHS 8595 (5/99)], Application for Construction Funds [DHS 8585 (4/01)]; Application for Short Term Planning Loans [DHS 8586 (1/99)]; Application for Source Water Protection Funds [DHS 8588 (2/00)]; and Application for Refinancing [DHS 8587 (1/99)], which are all incorporated by reference.

Section 63000.43. Funding Agreement.

"Funding Agreement" means the document that is signed by the funding recipient and the Department that consummates the loan and/or grant.

Section 63000.46. Funding Agreement Execution.

"Funding Agreement Execution" means that the funding agreement has been signed by both the funding recipient and the Department.

Section 63000.47. Funding Recipient.

"Funding recipient" means the public water system that enters into a funding agreement with the State and receives funding from the Safe Drinking Water State Revolving Fund.

Section 63000.48. Intended Use Plan.

"Intended Use Plan" means the document prepared by the Department, which identifies the management and utilization of the State Revolving Fund and describes how those uses support the goals of the program.

Section 63000.49. Local Match Project.

"Local Match Project" means a project whereby the local public agency provides 20 percent of the total eligible cost of the project to the Department to cover the State's matching share of the federal dollars.

Section 63000.62. Median Household Income.

"Median Household Income" means the household income that represents the median value for the service area of a public water system.

Section 63000.65. NEPA.

"NEPA" means the National Environmental Policy Act (42 U.S.C. 4331 et seq.) or a NEPA equivalent or NEPA-Like process approved by the USEPA for the drinking water revolving fund loan program.

Section 63000.66. Non-profit or Not-for-profit.

"Non-profit" or "not-for-profit" means an entity that is exempt from taxes under United States Internal Revenue Code Section 501(c), 26 U.S.C. 501(c).

Section 63000.67. Notice of Acceptance of Application.

"Notice of Acceptance of Application" means a notice sent to the applicant that (1) identifies the portions and costs of the project that have been determined to be eligible for State Revolving Fund funding; (2) explains the terms and conditions that will govern the loan or grant for the project; and (3) sets forth the conditions and schedules that must be met before a funding agreement will be executed.

Section 63000.68. Planning Funding.

"Planning Funding" means a loan and/or grant to cover the cost of studies, planning, and preliminary engineering for a project.

Section 63000.70. Possible contaminating activity (PCA).

"Possible contaminating activity (PCA)" means a human activity that is an actual or potential origin of contamination for a drinking water source and includes sources of both microbiological and chemical contaminants that could have adverse effects upon human health.

Section 63000.71. Project.

"Project" means all planning, engineering, construction, and construction related activities undertaken to solve the specific water system problem for which the project was ranked on the project priority list.

Section 63000.74 Project Priority List.

"Project Priority List" means the list of projects for which public water systems have requested funding and that have been ranked in priority order in accordance with section 116760.70 of the Health and Safety Code.

Section 63000.77. Project Primarily to Serve Future Growth.

"Project Primarily to Serve Future Growth" means a project, or project component, that has a design capacity that is more than two times the design capacity needed to serve the existing water demand at maximum day demand, as defined in Section 64551.30, of Chapter 16 of this Title, plus the design capacity needed to meet fire flow requirements of the local fire authority.

Section 63000.80. Refinancing Loan.

"Refinancing Loan" means a loan to refinance the remaining balance of an existing indebtedness incurred for construction of an otherwise eligible project where the construction of such project commenced after July 1, 1993.

Section 63000.81. Restructured Water System.

"Restructured water system" means the single public water system that results from the consolidation of two or more water systems.

Section 63000.83. Service Area.

"Service Area" means all of the geographical area that is currently served drinking water by a public water system.

Section 63000.84. Source Water Assessment.

"Source water assessment" means an evaluation of a drinking water source that includes delineation of the boundaries of the source area, identification of PCAs within the delineated area, a determination of the PCAs to which the source is most vulnerable, and a summary of the vulnerability of the source to contamination.

Section 63000.85. Source Water Protection (SWP).

"Source water protection (SWP)" means the process of managing the activities within a delineated source area to prevent drinking water source contamination.

Section 63000.86. Source Water Protection Program.

"Source water protection program", also known as a wellhead protection program or a watershed management program, means a comprehensive program developed to protect a water source used as a drinking water supply and includes activities such as organizing a community taskforce to develop and carry out the protection program, educating the community on source protection, conducting a source water assessment to determine the PCAs to which the source is most vulnerable, identifying management measures for the PCAs posing the highest risk, developing a strategy for implementing those measures, considering protection principles when siting any new sources, and identifying alternative sources of supply for emergencies.

Section 63000.87. Source Water Protection (SWP) Loan.

"Source Water Protection (SWP) loan" means a loan to cover the cost of a Source Water Protection Project.

Section 63000.88. SWP loan applicant.

"SWP loan applicant" means a public water system that is applying for a SWP loan from the State Revolving Fund.

Section 63000.89. State Revolving Fund.

"State Revolving Fund" means the Safe Drinking Water State Revolving Fund created pursuant to section 116760.30 of the Health and Safety Code.

Section 63000.90. Target Consumer Rate.

"Target Consumer Rate" means an amount equal to 1½ percent of the median household income for water systems where the median household income is equal to or less than the statewide median household income or 2 percent of the median household income for water systems where the median household income is greater than the statewide median household income.

Section 63000.92. USEPA.

"USEPA" means the United States Environmental Protection Agency.

Section 63000.95. USEPA Program Guidelines.

"USEPA Program Guidelines" means the Drinking Water State Revolving Fund Program Guidelines (EPA 816-R-97-005, February 28, 1997) adopted by the USEPA.

Article 2. Financing Criteria

Section 63010. Project Eligibility.

- (a) In order to be eligible for funding, an applicant shall have the authority to enter into a funding agreement with the State.
- (b) In order to be eligible for funding that is not a SWP loan, an applicant shall be either a community water system or a non-profit non-community water system.
- (1) Only those project costs that are directly associated with the planning, design, and construction of a project shall be eligible for funding.
 - (2) The following project costs, that would otherwise be eligible pursuant to paragraph (1), shall be ineligible for funding:
 - (A) Land acquisition except for land or land access that is integral to the construction of source, treatment or distribution facilities.
 - (B) Ongoing operation and maintenance costs.
 - (C) Any project facilities that are primarily to serve future growth.
 - (D) Dams or rehabilitation of dams and any raw water storage facilities.
 - (E) Water rights except water rights acquired through consolidation with another water system.
 - (F) Laboratories, except those necessary for operation of a treatment facility.
- (c) In order to be eligible for a SWP loan, an applicant shall be a community water system except that both a community and non-profit non-community water system shall be eligible for a SWP loan for land or easement acquisition.
- (1) SWP project costs that shall be eligible for a SWP loan include only those associated with source water protection measures such as destruction of abandoned wells, hazardous waste collection programs, upgrade or abatement of septic systems, public education, water quality monitoring at critical points in protection areas, fencing out cattle and other animals from intakes, tributaries or reservoir boundaries, restricting public access to critical areas in protection areas, evaluations of agricultural practices and education on best management practices, installation of signs at boundaries of zones or protection areas, and structures to divert contaminated runoff from the source.
 - (2) SWP project costs shall be ineligible for SWP funding if the project is eligible for funding through the following:
 - (A) The federal Comprehensive Environmental Response Compensation and Liability Act of 1980 (Superfund) as amended by the Superfund Amendments and Reauthorization Act of 1986; or
 - (B) Programs established under the Hazardous Substance Account Act (Health and Safety Code, Chapter 6.8, Section 25300 et seq); or
 - (C) The Underground Storage Tank Cleanup Fund created pursuant to Health and Safety Code section 25299.50.
- (d) Costs arising from construction change orders that occur after funding agreement execution shall be ineligible for funding except for the following:
- (1) A change in the executed funding agreement amount based on the final accepted construction bid as provided in section 63052(b).
 - (2) Change orders that are a result of changes in drinking water standards.
 - (3) Change orders requested by the Department.

Section 63011. Planning Funding.

- (a) Planning funding shall be used only to finance planning, studies, and preliminary engineering costs for an eligible project. Planning funds shall not be used for detailed design, equipment purchase, or construction.
- (b) Planning funding shall be limited to a maximum amount of \$500,000 per project, as loan, grant, or combined loan and grant.
- (c) Projects funded by planning funding shall be completed and a planning report submitted to the Department within 18 months from funding agreement execution.

Section 63012. Construction Funding.

- (a) Construction funding shall be limited to a maximum amount of \$20,000,000 per project.
- (b) A public water system shall not be awarded more than an aggregate amount of \$30,000,000 in construction funding and refinancing loans from a federal funding allocation.
- (c) The funding limitations established by this section shall not apply during the month preceding the federal deadline for obligation of funds to applicants from a federal funding allocation.

Section 63013. Refinancing Loans.

- (a) Refinancing loan funds shall be used only to refinance the remaining balance of an existing indebtedness incurred by the construction of an eligible project ranked in a category A through G on the Project Priority List.
- (b) An applicant for a refinancing loan shall be a public agency.
- (c) Refinancing loans shall be limited to a maximum amount of \$20,000,000 per project and an aggregate total of \$30,000,000 per water system from a federal funding allocation.
- (d) Refinancing loans shall only be made when all eligible projects ranked in a category A through G on the Project Priority List have been funded or by-passed.

Section 63014. Local Match Projects.

- (a) Local match projects shall be considered to be the same as construction projects and shall be subject to the same conditions and limitations.
- (b) An applicant for a local match project shall be a community water system owned by a public agency.
- (c) Only projects that exceed \$5,000,000 in eligible project costs shall be eligible for local matching.

Section 63015. SWP Loans.

- (a) SWP loan funds shall be used only for planning, preliminary engineering, detailed design, construction, education, land acquisition, conservation easements, equipment purchase, and implementing the elements of a source water protection program.
- (b) SWP loans shall be limited to a maximum amount of \$2,000,000 per project per year.
- (c) A SWP loan applicant shall not be awarded more than an aggregate amount of \$3,000,000 in SWP loans in any fiscal year.
- (d) A planning project funded by a SWP loan shall be completed and a planning report submitted to the Department within 18 months from funding agreement execution.

Article 3. Disadvantaged Communities

Section 63020. Grant Eligibility.

- (a) An applicant, determined eligible for funding under this chapter, may be eligible for grant funding only if:
- (1) It is a public water system owned by a public agency or a not-for-profit water company, and
 - (2) Its service area is a disadvantaged community.
- (b) In the case of a consolidation project, the grant eligibility requirement of subsection (a)(2) shall be based on evaluation of the service area "median household income" of each participating applicant.

Section 63021. Grant Limitations.

- (a) The maximum amount of grant funding to be awarded to a project shall be limited to the following percentages according to the classification of the project using the most recent Project Priority List adopted pursuant to Health and Safety Code Section 116760.70:
- (1) 80% of the eligible project cost if the project is in Project Priority List categories A through G;
 - (2) 65% of the eligible project cost if the project is in Project Priority List categories H through L;
- or
- (3) 50% of the eligible project cost if the project is in Project Priority List categories M through O.
- (b) The maximum amount of grant funding that one water system may receive for a project shall not exceed the limitation set forth in Health and Safety Code 116761.23(a).
- (c) The total amount of grant funding awarded to a disadvantaged community for a project shall be limited to the amount of funding needed so that the projected average residential water rate, which would result from a loan from the State Revolving Fund, will not exceed the target consumer rate. This subsection (c) does not establish a limitation on the total amount of loan funding that can be awarded to a disadvantaged community.
- (d) For consolidation projects, the limitations set forth in this section shall be applied to each participating applicant's eligible share of the total project cost of the consolidation project, and the total grant amount awarded for the entire consolidation project shall be limited to the total grant eligibilities of the individual participating applicants.

Article 4. Application Process

Section 63025. Funding Application.

- (a) All funding applications shall be submitted by public water systems only after a water system has received a written invitation from the Department to do so.
- (b) Upon receipt of a written invitation from the Department to submit a funding application, an applicant shall indicate their intention to submit the application within the deadline set forth in the letter by signing a statement of intent. The statement of intent shall be received by the Department prior to close of business on the day indicated in the invitation.
- (c) In order to be assured of receiving funding consideration from a specific federal funding allocation, a completed funding application shall be submitted to the Department by close of business on the date set forth in the letter of invitation.
- (d) A funding application shall not be accepted for processing unless the funding application form is completed and the additional information specified below is submitted:

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- (1) For SWP loan applications, the information in Sections 63026(d), 63026(e), 63027, and 63028(a).
- (2) For all other funding applications, the information in Sections 63026, 63027, and 63028.

Section 63026. Technical Information.

(a) Each funding application for construction funding or a refinancing loan shall contain the following information:

- (1) A map showing the current service area of the water system.
- (2) A map or drawing showing the location of all existing water sources, pumping facilities, treatment facilities, storage tanks or reservoirs, water transmission mains, and water main pressure zones.
- (3) A schedule for full compliance with CEQA and NEPA.

(b) Each applicant for construction funding shall prepare and submit with the funding application, an engineering report addressing all of the following elements:

- (1) An identification and evaluation of alternative solutions to the problem. The evaluation shall compare estimated project costs, relative effectiveness in solving the problem, and environmental impacts of each alternative.
- (2) An evaluation, including costs and feasibility, of possible physical consolidation with other water systems.
- (3) A description of the selected or proposed alternative.
- (4) A conceptual or preliminary engineering design, including the design capacity of project components, and a schematic layout of the proposed project. All assumptions, criteria, and calculations used for the preliminary design shall be shown.
- (5) An analysis and estimation of the anticipated useful life of components of the proposed project.
- (6) A preliminary analysis of projected growth anticipated to occur within the service area within the next ten years, the resultant projected water demand, and the amount of growth or water demand to be included in the project.
- (7) A proposed design and construction schedule.
- (8) A cost estimate breakdown of the proposed project.
- (9) In the case of a consolidation project, each funding application also shall include identification of the single public water system that would result from completion of the consolidation project.

(c) Each funding application for a refinancing loan shall include all of the following:

- (1) A description and estimated costs of all alternative solutions to the problem that were considered prior to construction of the selected project.
- (2) A layout or schematic drawing showing the location and relationship of all project facilities including the newly constructed portions.
- (3) A description of the facilities that were constructed and for which refinancing is being requested including an estimate of their useful life.
- (4) The design capacities of project components and the design parameters and engineering calculations used in the sizing and design of the project components.
- (5) An analysis and estimation of the water demand within the service area at the time of start of construction of the project and a projection of anticipated growth and water demand for a ten-year period commencing from the time of start of construction.
- (6) A cost breakdown of the constructed project.
- (7) As-built plans for all of the construction facilities that are to be covered by the refinancing loan.
- (8) The final plans and specifications used to solicit and select the construction bid.

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- (9) Information that demonstrates that the applicant has complied with all applicable federal cross-cutters.
- (d) Each SWP loan applicant shall submit the following:
- (1) A completed source water assessment for each drinking water source addressed by the proposed project.
 - (2) A list of the types of contaminants that the proposed project is intended to address and the associated PCAs.
 - (3) A description of the dimensions and location of the area or zone in which the associated PCAs are located.
 - (4) A map showing water system facilities, intake or well location, and source protection areas and/or zones.
 - (5) A description of the local community taskforce addressing source water protection (if one exists). The description shall include a list of the participants and their affiliations, and the methods used to establish the membership in the taskforce.
 - (6) A schedule for full compliance with CEQA and NEPA.
- (e) Each SWP loan applicant shall prepare and submit an engineering report with the loan application that addresses all of the following:
- (1) Descriptions and estimated costs of all alternative solutions to the problem that were considered prior to selection of the proposed project.
 - (2) A description of the proposed project.
 - (3) A conceptual or preliminary engineering design and schematic layout of the proposed project, if applicable. All assumptions, criteria, and calculations used shall be shown.
 - (4) An analysis and estimation of the anticipated useful life of the components of the proposed project, if applicable.
 - (5) A proposed schedule for carrying out the project.
 - (6) A cost estimate breakdown of the proposed project.

Section 63027. Managerial Information.

Each funding application shall contain the following:

- (a) Copies of any leases, easements, or other documentation for land, water sources, treatment, pumping, storage, or distribution facilities used in the operation of the water system that are not owned by the water system.
- (b) A written statement certifying that the applicant, or in the case of a consolidation project, the restructured water system, is a legal entity and that it has the authority to enter into a long-term indebtedness with the State of California.
- (c) A description of the water rights held by the water system and any available documentation to substantiate those rights.

Section 63028. Financial Information.

- (a) Each funding application shall contain the following:
 - (1) A projected revenue/expenditure analysis that compares all anticipated water system revenues and planned expenditures for the next five years.
 - (2) An analysis and calculation of the average current water rate charged to residential users and the projected average water rate that will be charged to residential users following completion of the eligible project. This analysis is not required for non-community water systems.
 - (3) Financial statements (balance and income) of the water system covering the past three years.
 - (4) A description of the accounting and budget control procedures used and any proposed changes to the procedures.

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(b) In addition to the requirements of subsection (a), applicants for a refinancing loan shall also include a certification that proceeds of the previous debt were used to pay for eligible project costs. If ineligible items were funded, a list of those items and their costs shall be included.

(c) In addition to the requirements of subsection (a), applicants that propose to use local matching funds pursuant to section 63014 shall include a resolution adopted by the governing body. The resolution shall identify the source of the local matching funds and pledge those funds for deposit into the State Revolving Fund.

Section 63029. Notice of Acceptance of Application.

(a) Within 60 days of receipt of a Notice of Acceptance of Application from the Department, the applicant shall indicate its acceptance of the terms and conditions of the Notice of Application Acceptance by signing and returning it to the Department.

(b) If the proposed project is a consolidation project for which the restructured water system is not one of the applicants, within 60 days of receipt of a Notice of Acceptance of Application from the Department, the applicant(s) and the restructured water system shall indicate their acceptance of the terms and conditions of the Notice of Application Acceptance by signing and returning it to the Department.

Section 63030. Project By-Passing.

(a) A project on the Project Priority List shall be by-passed for funding consideration for the current fiscal year if any of the following apply:

(1) The water system indicated that it did not desire to receive funding for a particular project in the current fiscal year.

(2) A water system fails to sign a statement of intent to submit an application and return it to the Department by the date identified in the letter as specified in Section 63025(b).

(3) A water system, receiving an invitation from the Department to submit a funding application, informs the Department that it does not wish to submit an application at this time.

(4) A funding application is rejected by the Department for failure on the part of the applicant to comply with the requirements of this chapter.

(5) An applicant fails to sign and return the Notice of Acceptance of Application within 60 days of receipt of the Notice of Acceptance of Application.

(6) The Department withdraws a previously issued Notice of Acceptance of Application for failure on the part of the applicant to comply with the terms and conditions as stated in the Notice of Acceptance of Application.

(7) A water system received an invitation (statement of intent) from the Department pursuant to Section 63025, and for two consecutive years failed to return the statement of intent by the deadline.

(8) The applicant has reached the \$3,000,000 loan maximum set forth in subsection 63015(c) for a SWP loan, or the \$30,000,000 funding maximum set forth in subsection 63012(b) for a construction funding or refinancing loan.

(b) Any project that is by-passed for any reason shall remain on the Project Priority List and be eligible for future funding consideration.

Article 5. Information to be Submitted Prior to Execution of the Funding Agreement

Section 63040. Technical and Financial Information.

- (a) All applicants for construction funding, SWP loans, or refinancing loans shall comply with all applicable environmental review and procedural requirements of CEQA and NEPA prior to execution of the funding agreement.
- (b) Prior to execution of a funding agreement that includes a loan, each funding recipient shall submit the following:
 - (1) A resolution or ordinance adopted by the governing body dedicating the source of repayment of the loan.
 - (2) A completed fiscal services agreement for loan repayment funds.

Article 6. Design and Construction

Section 63050. Plans and Specifications.

Applicants for construction funding or SWP loans involving construction shall submit final design plans and project specifications to the Department in accordance with the schedule set forth in the Notice of Acceptance of Application.

Section 63051. Federal Cross-Cutting Requirements.

- (a) The criteria for projects subject to federal cross-cutting authorities shall be those established in the most recent Intended Use Plan adopted prior to the date the water system is invited to submit an application for funding the project.
- (b) Each SWP project shall comply with federal cross-cutting authorities.

Section 63052. Construction.

- (a) Construction contracts awarded by the applicant for any project involving the use of grant funds from the State Revolving Fund shall be based on competitive construction bids.
- (b) An applicant's request for a change in the amount of funding specified in the funding agreement shall be limited to one occasion and shall be based solely on the final accepted construction bid(s).

Article 7. Claims and Loan Repayments.

Section 63055. Submission of Claims for Reimbursement.

- (a) No claims for reimbursement shall be submitted prior to execution of the funding agreement. Claims shall be submitted only for reimbursement of costs already incurred.
- (b) Claims shall be submitted no more frequently than monthly.
- (c) No claims shall be submitted for construction costs incurred after completion of the project as defined in Section 63000.16.

(d) No claims for local match projects shall be reimbursed until the applicant's local share has been received and deposited into the State Revolving Fund account.

Section 63056. Loan Repayments

- (a) Loan repayments shall be made in accordance with the schedule set forth in the funding agreement.
- (b) A penalty of one-tenth of one percent per day (not compounded) on the payment amount due shall be assessed for late payments.

Section 63057. Records.

- (a) All applicant records and documents relating to funding received from the State Revolving Fund shall be maintained until such time that any State Revolving Fund loan has been fully repaid.
- (b) All applicant records and documents pertaining to the funding agreement shall be available for inspection and audit by the Department or the USEPA during normal business hours.
- (c) In the case of a consolidation project, the requirements of this section shall also be met by the restructured water system.

Article 8. Consolidation Projects

Section 63058. Limitations on Water Systems Involved in Consolidation Projects.

Upon completion of a consolidation project, all water systems involved in the consolidation, other than the restructured system, shall cease to operate as public water systems.

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Appendix C [SDWSRF summary of Grant Award Utilization (Years 1-11)]

SDWSRF Financial Plan
State Fiscal Year 2003-7
California Implementation October 2005 - September 2007
California DWSRF Program Grant Awards 6, 7, 8, 9, & 10

Federal Grant Year	Year 6		Year 7		Year 8		Year 9		Year 10		Year 10		Total
Award Date	7/1/2003		6/21/2004		7/1/2005		16-Jun-05		Proposed		Proposed		Years 6, 7, 8, 9, & 10
Grant/Award Number	FS-98934903-0		FS-98934904-0		FS-98934905-0		FS-98934906-0		FS-9893490x-0		FS-9893490x-0		
ACCOUNT	FEDERAL FUNDING	STATE MATCH	FEDERAL FUNDING	STATE MATCH	FEDERAL FUNDING	STATE MATCH	FEDERAL FUNDING	STATE MATCH	FEDERAL FUNDING	STATE MATCH	FEDERAL FUNDING	STATE MATCH	COMBINED (yrs 6-10)
I. DWSRF Loan Account	\$71,390,201	\$16,492,180	\$70,949,918	\$16,393,240	\$68,366,592	\$17,005,520	\$73,225,866	\$16,969,500	\$58,423,429	\$13,430,736	\$58,423,429	\$13,430,736	\$422,637,202
Large systems (85% target)													
Standard Loans													
Disadvantaged Communities													
Large systems target subtotal													
Small Systems (15% target)													
Standard Loans													
Disadvantaged Communities													
Small Systems target subtotal													
Loan Account Subtotal													
II. Set Aside Accounts													
Technical Assistance	\$1,649,218		\$1,639,324		\$3,339,876		\$1,390,538		\$1,342,083		\$1,342,083		\$9,361,039
State Program Management							\$1,050,000		\$2,304,000		\$2,304,000		\$3,354,000
Capacity Development#	\$2,000,000		\$2,000,000		\$2,400,000		\$2,400,000		\$2,400,000		\$2,400,000		\$11,200,000
Local Assistance													
Source Water Assessment Program													
Source Water Protection Loans	\$4,123,045		\$4,098,310		\$4,251,380		\$4,000,000		\$0		\$0		\$16,472,735
Set aside Subtotal													
III. DWSRF Administration Account													
4% Setaside	\$3,298,436		\$3,278,648		\$6,609,752		\$2,781,076		\$2,684,166		\$2,684,166		\$18,652,078
Fees													
Subtotal													
TOTAL FEDERAL	\$82,460,900		\$81,966,200		\$85,027,600		\$84,847,500		\$67,153,678		\$67,153,678		Total Funding
TOTAL STATE		\$16,492,180		\$16,393,240		\$17,005,520		\$16,969,500		\$13,430,736		\$13,430,736	\$481,747,064

Appendix D

2009 Final SDWSRF Project Priority List

Appendix E

2009 Final SDWSRF Fundable List

Appendix F

California Operation Certification Program Annual Report – 2008

California Operator Certification Program – Annual Report (July 1, 2007 – June 30, 2008)

Water Treatment Operators

There are currently 13,188 water treatment operators certified by the California Department of Public Health (CDPH). This represents a 9.2 % increase over last year. The number of examinees has continued to increase over the last two exam cycles to our current level of approximately 1,500 each exam. The majority of examinees, (75%), are not currently certified.

Water Distribution Operators

There are 18,490 certified water distribution operators in California. This is a 9.4% increase over last year. The number of certified water distribution operators continues to grow at a steady pace. The number of examinees per exam cycle has leveled off to approximately 2,300.

Exam Validation

The first validated water treatment exam was offered in May, 2008. This exam was based on a new “Expected Range of Knowledge” that was created through the validation process. It had 85 multiple choice questions worth one point each and 15 math problems worth two points each. The Stakeholder Committee requested that CDPH preserve the weight of the math portion of the exams in order to ensure that certified operators can perform the basic math functions required in the industry. The pass rate for the May exam was slightly higher than the average pass rate but well within the expected range. The feedback from operators was positive.

Stakeholders Meetings

A stakeholders’ committee continues to meet twice a year to discuss implementation of the operator certification regulations. This committee represents organizations and groups of people who are affected by the regulations. Membership includes the CDPH, U.S. Environmental Protection Agency (US EPA), California-Nevada Section of the American Water Works Association (CA-NV-AWWA), Local Union 39, California Rural Water Association (CRWA), Rural Community Assistance Corporation (RCAC), water distribution and treatment instructors and operators from water systems. The Committee is currently reviewing the regulations and considering possible updates and changes. The membership of the Committee was last reviewed and updated in 2006. The result of this update was to enhance the representation of water treatment and distribution operators on the Committee.

The members of the Stakeholders’ Committee is listed below

Omar Castro, Carpentaria Valley Water District
Jennifer Clary, Clean Water Action and Clean Water Fund
Dan DeMoss, California Rural Water Association (CRWA)
Jill Duerig, Zone 7 Water District
John Hamner, Rural Community Assistance Corporation, (RCAC)
Phillip Holderness, Kern County Water Agency, CA/NV-AWWA

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Charlie Judson, Weeks Drilling and Pump Company
 Dr. Ken Kerri, Office of Water Programs, CSUS
 Mary Krizanosky, City of Sacramento
 Rick Mann, Metropolitan Water District of Southern California
 Marcia Mooney, Stationary Engineers, Local 39
 Michelle Mustakas, EPA
 Mike Nichols, Placer County Water Agency, CA/NV-AWWA
 Michael Odom, Los Angeles Department of Water and Power
 Jon Strutzel, CDPH Operator Certification Unit
 Tony Wiedemann, CDPH, Klamath District
 Kay Tivol, OCT Academy
 Leah Walker, CDPH Section Chief, Technical Operations
 Wendal Wall, LaPuente Valley County Water District

The stakeholders' meetings are held twice a year in February and September.

Summary

Certification	# Certified	% Change	Notes
Water Treatment Operators	13,188	+9.2%	During the past year, 2,958 applicants were tested.
Distribution Operators	18,490	+9.4%	During the past year, 4,413 applicants were tested.
Total	31,678		2,713 new certified operators this fiscal year

Appendix G

Reserved for Public Comments and CDPH Response