



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY

REGION IX

75 Hawthorne Street
San Francisco, CA 94105-3901

MAY 17 2016

Mr. Darrin Polhemus, Division Chief
Division of Financial Assistance
California State Water Resources Control Board
P.O. Box 100
Sacramento, California 95812-0100

Dear Mr. Polhemus:

On March 30, 2016, the California State Water Resources Control Board (State Water Board) requested EPA's approval to close the California Drinking Water State Revolving Fund (DWSRF) Corrective Action Plan (CAP). EPA's review of the actions taken by the California Department of Public Health (CDPH) and the State Water Board indicate that the California DWSRF program has been successfully restored to compliance. The California DWSRF program has addressed the deficiencies identified in the Notice of Non-compliance and implemented the corrective actions specified in the CAP. As such, EPA approves your request to close the CAP.

In an April 19, 2013 letter, EPA determined that the CDPH was in non-compliance with the Safe Drinking Water Act (SDWA) and the federal regulatory requirements of the DWSRF program. Specifically, EPA found that the California DWSRF program was not in compliance with 40 CFR §35.3550(l), 40 CFR §35.3550(c), and 40 CFR §35.3560(d).

To remedy the areas of non-compliance, CDPH submitted to EPA the CAP, which outlined the corrective actions needed to address the required elements in the Notice of Non-compliance and included a schedule of deliverables and due dates. EPA approved the CAP on July 23, 2013. With the July 1, 2014, transfer of the California drinking water program from CDPH to the State Water Board, the State Water Board became the responsible agency for the California DWSRF program, including the CAP.

EPA has reviewed and agrees with the schedule and status of each CAP deliverable as indicated in attachment A of your letter. The final targets and deliverables under the CAP are scheduled for June 30, 2016, and California has met all of these targets, except for the target pertaining to disbursements. However, California has met the intent of the disbursement target by disbursing more than twice as much in the last four years (\$738 million) than it did in the four years before that (\$336 million), which demonstrates that it has adequately addressed the obstacles and inefficiencies in its disbursement process.

The following actions further support California's enhanced financial management capacity:

- **Expeditious and timely use of DWSRF funds (40 CFR §35.3550(l)):** The California DWSRF has executed more than \$1 billion in total assistance agreements over the past four years, exceeding the total CAP commitment target by 15%. Likewise, the California DWSRF reduced its unspent federal funds from \$455 million in October 2012 to less than \$102 million as of May 10, 2016, well below the final June 2016 target of \$160 million.
- **Technical capability to operate the DWSRF program (40 CFR §35.3550(c)) and provide and follow a cash draw schedule (40 CFR §35.3560(d)):** California has enhanced its financial management capability by creating new operational units and employing the financial expertise required to ensure timely disbursements. The California DWSRF has become a national leader in cash flow modeling and forecasting, and it consistently produces realistic and timely cash draw schedules.

EPA commends California for improving the financial management of its DWSRF program and for reducing the amount of unspent federal funds. California is now in full compliance with the financial requirements of the DWSRF program and is well positioned to consistently meet EPA's 2014 DWSRF Unliquidated Obligations Reduction Strategy.

EPA is available to support the state in its efforts to promote and achieve the objectives of the SDWA and the DWSRF program. Please feel free to call me at 415-972-3337 if you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Tomás Torres', with a long horizontal flourish extending to the right.

Tomás Torres
Director, Water Division