

FISCAL YEAR 2021-22 FUND EXPENDITURE PLAN
FOR THE SAFE AND AFFORDABLE DRINKING WATER FUND
SUMMARY NOTES

This document summarizes the status of the Draft Fiscal Year (FY) 2021-22 Fund Expenditure Plan (Plan) for the Safe and Affordable Drinking Water Fund (SADW Fund or Fund). Expenditures from the Fund will complement other funding sources as part of the broader Safe and Affordable Funding for Equity and Resilience (SAFER) Drinking Water Program (Program), which includes General Fund appropriations, general obligation bond funds, and funding available through annual Drinking Water State Revolving Fund (DWSRF) capitalization grants. The SAFER Program's goal is to provide safe drinking water in every California community, for every Californian.

The Budget Act of 2021 includes three appropriations that directly impact the larger SAFER Program.

- \$985 million in Federal funding from the Coronavirus Fiscal Recovery Fund of 2021 to address COVID-19 pandemic related CWS customer arrearages and revenue gaps.
 - For small systems, this funding support will likely go primarily to cover ongoing operation and maintenance (O&M) costs.
- \$1.3 billion in General Fund local assistance for drinking water and wastewater infrastructure. \$650 million will go towards drinking water infrastructure and \$650 million will go towards wastewater infrastructure.
 - The \$650 million for drinking water will prioritize disadvantaged communities (DACs).
 - Overall, up to \$2.1 billion, at least \$1.1 billion of which is available for capital projects, is anticipated to be available from complementary funding sources that make up the larger SAFER Program.
 - As such, a relatively small amount (\$35 million of the \$130 million FY 2021-22 SADW Fund appropriation) is proposed to go towards construction projects (see Table 1 below).
- \$10 million in General Fund local assistance for interim or immediate solutions to drinking water drought emergencies.
 - This amount will supplement existing funding available to respond to drought-related issues (\$32 million remaining in existing programs and \$21 million available through the SADW Fund and older General Fund appropriations).
 - This amount will be available to respond to incoming emergency funding requests as well as to develop bottled water and hauled water programs with counties that are most susceptible to water shortage issues.
 - An additional \$39.3 million from the FY 2021-22 SADW Fund appropriation is proposed to go towards interim water supplies and emergencies (\$10 million for public water systems (PWSs) and \$29.3 million for state small water systems (state smalls) and domestic wells).

Based on the 2021 Needs Assessment and building on previously established priorities, the expenditures from the Fund for FY 2021-22 will focus on solutions for small DACs and low-income households, and seek to:

- (1) Address any emergency or urgent funding needs expeditiously, where other emergency funds are not available and a critical water shortage or outage could occur without support from the Fund;
- (2) Address community water systems (CWSs) and school water systems out of compliance with primary drinking water standards or at-risk of failing;
- (3) Accelerate consolidations for out of compliance or at-risk systems, as well as state smalls and domestic wells, and promote opportunities for regional-scale consolidations;
- (4) Expedite planning through use of technical assistance (TA) for systems out of compliance, at-risk systems, as well as state smalls and domestic wells; and
- (5) Provide interim solutions, initiate planning efforts for long-term solutions, and fund capital projects for state smalls and domestic wells with source water above a primary maximum contaminant level (MCL) or at risk of running dry due to drought.
- (6) Ensure assistance is distributed in a manner consistent with the goals and direction provided in the State Water Board's Racial Equity Resolution and associated Racial Equity Action Plan.

Up to \$130 million will be available from the Fund for local assistance and state operations. The target allocations of the Fund for FY 2021-22 (see Table 1 below) are consistent with the priorities and will be used in conjunction with other available complementary funding from the larger SAFER Program to address funding gaps. The FY 2021-22 target allocations are in addition to projects already funded in FY 2020-21 and prior. Items to note include:

- Solutions are primarily focused on small DACs and low-income households.
- Funds targeted for TA for PWSs are intended to assist with completing all planning tasks necessary to accelerate moving projects towards construction. These funds are also intended to be used to help address the large number of systems considered to be at risk of failing based on the 2021 Needs Assessment.
- Funds targeted for planning, construction, and direct O&M and construction will be prioritized to support consolidation (including regional-scale consolidation) efforts (shown to be highly cost effective in the 2021 Needs Assessment) via consolidation incentives.
- Significant investments are proposed to help address the large numbers of state smalls and domestic wells identified as being at high risk of groundwater contamination (based on the 2021 Needs Assessment) or at high risk of being impacted by drought via interim water supplies and emergency funding and TA.

Table 1. FY 2021-22 SADW Fund Target Allocations (in millions)

Water System Category	Interim Water Supplies and Emergencies	Technical Assistance (includes Planning) ¹	Administrator ¹	Planning ¹	Direct O&M Support ¹	Construction	<i>SUBTOTAL BY WATER SYSTEM CATEGORY</i>
Systems Out of Compliance or At-Risk	\$10	\$20	\$4	\$2	\$5	\$33	\$74
State Smalls/ Domestic Wells	\$29.3	\$10	\$0	\$0	\$0	\$2	\$41.3
<i>SUBTOTAL BY SOLUTION TYPE</i>	\$39.3	\$30	\$4	\$2	\$5	\$35	
TOTAL							\$115.3
Other Program Needs	Pilot Projects	Contracts	Staff Costs				
	\$0	\$1.5	\$13.2				
GRAND TOTAL							\$130

¹ Provides Direct/Indirect O&M Support

Anticipated funds available for projects in FY 2021-22 (i.e., uncommitted balances) from the larger SAFER Program are summarized in Table 2.

Table 2. FY 2021-22 SAFER Program Anticipated Funding Availability for Projects (SADW Fund plus complementary funding) (as of June 30, 2021)

Funding Category ¹	Funding Source	Interim Water Supplies and Emergencies	Technical Assistance	Administrator	Direct O&M Support	Planning/Construction	FY 2021-22 Available Funds
SADW Fund²	FY 2021-22 ³	Y	Y	Y	Y	Y	\$115,300,000
	FY 2020-21	Y	Y	Y	Y	Y	\$12,369,548
General Fund²	Arrearages ⁴				Y		\$985,000,000
	Infrastructure ^{4,5}					Y	\$617,500,000
	Drought ^{4,5}	Y				Y	\$9,500,000
	AB 72	Y		Y		Y	\$16,563,211
	AB 74	Y			Y	Y	\$8,729,173
General Obligation Bond Funding	Prop 1 DW		Y				\$12,094,591
	Prop 1 GW					Y	\$67,000,000
	Prop 68 DW				Y	Y	\$127,423,575
	Prop 68 GW				Y	Y	\$28,000,000
	Prop 84	Y				Y	\$4,968,288
DWSRF Principal Forgiveness	DWSRF					Y	\$95,704,383
DWSRF Repayable Financing/Loans⁶	DWSRF					Y	\$30,000,000
						TOTAL	\$2,130,152,769

¹ All allocations may be used for projects for at-risk systems.

² SADW Fund and General Fund allocations may be used for projects for state smalls and domestic wells implemented by an eligible recipient.

³ The FY 2021-22 allocation of the SADW Fund is \$130 million minus estimated staff costs.

⁴ General Fund allocations for Arrearages, Infrastructure, and Drought are from the Budget Act of 2021 and subsequent amendment by SB 129.

⁵ Amounts shown for Infrastructure and Drought are the allocations minus 5 percent for state operations.

⁶ This is an estimate of the amount of repayable loan financing that may be expended for small DAC projects that also receive grant funding. The total amount of anticipated repayable loan financing that is expected to be committed in FY 2021--22 can be found in the DWSRF Intended Use Plan (IUP). Additional repayable loan financing is available for small DAC projects, if needed.

FY 2020-21 ESTIMATED COMMITTED EXPENDITURES FROM SADW FUND

Table 3 below is a summary of FY 2020-21 Estimated Committed Expenditures for the SADW Fund (as of May 2021) broken out by type of system and type of project. Target allocations from the prior Fund Expenditure Plan (Table 1 of the FY 2020-21 Fund Expenditure Plan) are shown in parentheses. Differences between the former target allocations and the actual estimated committed expenditures for FY 2020-21 are discussed in more detail in the FY 2021-22 Fund Expenditure Plan.

Table 3. FY 2020-21 SADW Fund Estimated Committed Expenditures (in millions) (as of June 30, 2021)

Water System Category	Interim Water Supplies and Emergencies	Technical Assistance (includes Planning) ¹	Administrator ¹	Planning ¹	Direct O&M Support ¹	Construction	SUBTOTAL BY WATER SYSTEM CATEGORY ²
Systems Out of Compliance	\$10.7 (\$10)		\$1.3 (\$0)	\$0.1 (\$3)	\$0 (\$5)	\$29.2 (\$19)	\$41.3 (\$44)
Systems At-Risk ³	\$0 (\$4)		\$0	\$0 (\$3)	\$0 (\$5)	\$22.7 (\$20)	\$22.7 (\$50)
Other Systems	\$0	\$8.1 (\$30)	\$0	\$0	\$0	\$2.1	\$2.1
State Smalls/Domestic Wells	\$16.6 (\$5)		\$0	\$0	\$0	\$11.3 (\$10)	\$27.9 (\$20)
Reserved	\$12.4	\$0	\$0	\$0	\$0	\$0	\$12.4
SUBTOTAL BY SOLUTION TYPE	\$39.7 (\$19)	\$8.1 (\$30)	\$1.3 (\$0)	\$0.1 (\$6)	\$0 (\$10)	\$65.3 (\$49)	
TOTAL							\$114.5 (\$114)
Other Program Needs	Pilot Projects (Reserved)	Staff Costs ⁴					
	\$3.2 (\$3.2)	\$12.3 (\$12.8)					
GRAND TOTAL							\$130

¹ Direct/Indirect O&M Support

² Subtotal by Water System Category does not include TA investments.

³ "Systems At-Risk" include systems identified in Appendix F of the FY 2020-21 Fund Expenditure Plan (not the 2021 Needs Assessment).

⁴ Staff costs are projected as year-end financials for FY 2020-21 and have not been finalized.

ADDITIONAL INFORMATION

TIMELINE

The following are key dates for the adoption of the FY 2021-22 Fund Expenditure Plan:

Date	Milestone
March to August 2021	Draft FY 2021-22 Fund Expenditure Plan Preparation and Internal Review
April 8, 2021 & April 22, 2021	Advisory Group Meeting #1: Statewide Needs Assessment and Fund Expenditure Plan (SADW Fund Target Allocations Discussion)
April 20, 2021	Board Meeting with Informational Item on Needs Assessment Results
August 6, 2021	Release Draft FY 2021-22 Fund Expenditure Plan for Public Comment
August 12, 2021	Advisory Group Meeting #2: Review Draft Fund Expenditure Plan
August 18, 2021	Board Workshop on FY 2021-22 Fund Expenditure Plan
August 27, 2021	End of 21-Day Public Comment Period for FY 2021-22 Draft Fund Expenditure Plan
October 19, 2021	Board Meeting to Consider Adoption of FY 2021-22 Fund Expenditure Plan

2021 NEEDS ASSESSMENT HIGHLIGHTS

The inaugural statewide safe and affordable drinking water needs assessment (Needs Assessment), released in April 2021, included a risk assessment, cost assessment, and affordability assessment for PWSs, state smalls and domestic wells. The results of the Needs Assessments inform the Fund Expenditure Plan as it is updated each year.

Results of the 2021 Needs Assessment indicated that:

- It is important to address the fragmentation and proliferation of small, underperforming systems through consolidation (including regional-scale consolidations). Strategic consolidations at a regional-scale have the potential to decrease project costs when considered on a per connection basis.
- 326 water systems with 3,300 connections or less (343 total) were on the December 21, 2020 version of the Human Right to Water (HR2W) list, i.e., a list of systems that “consistently fail” to meet primary drinking water standards
- Approximately 620 PWSs (25% of those assessed) were determined to be at-risk of failing to sustainably provide a sufficient amount of safe and affordable drinking water.
- Approximately 80,000 (32%) of the assessed domestic wells and 610 (49%) of the state smalls with available data were located in aquifers with high risk of groundwater contamination.
- The estimated total cost of implementing the interim and long-term solutions, for the projected number of water systems and domestic wells that need assistance within the next five years, is approximately \$10.25 billion. This projected cost includes estimated grant-eligible costs of \$3.25

billion, such as capital, planning, TA costs, etc. The total cost estimate also includes the long term local cost share needs of \$7 billion.

- An additional estimated \$2.1 billion in grant funding and \$2.6 billion in loan funding (financing) is needed to address failing and At-Risk systems and domestic wells over the next five years, after using all currently available State Water Board funding sources.
- Approximately 512 water systems (33% of systems assessed) that serve economically DACs exceeded at least one of three affordability indicator thresholds.

DRAFT