

# ANNUAL REPORT

**State Fiscal Year 2018-19  
(July 1, 2018 through June 30, 2019)**

**The Drinking Water State Revolving Fund**

**California State Water Resources Control Board  
Division of Financial Assistance • 1001 I Street • Sacramento, CA 95814**

## OUR VISION

A sustainable California made possible by clean water and water availability for both human uses and environmental resource protection.

## OUR MISSION

To preserve, enhance, and restore the quality of California's water resources and drinking water for the protection of the environment, public health, and all beneficial uses, and to ensure proper water resource allocation and efficient use, for the benefit of present and future generations.



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## About the State and Regional Water Boards

The State Water Resources Control Board (State Water Board) was created in 1967. Its comprehensive authority over allocation, planning, and enforcement enables the State Water Board to protect California's water quality and drinking water.

The State Water Board consists of five full-time salaried members, each filling a different specialty position. Each Board member is appointed to a four-year term by the Governor and confirmed by the Senate.

There are also nine Regional Water Quality Control Boards (Regional Water Boards). The Regional Water Boards develop and enforce water quality objectives and implement plans that protect the beneficial uses of the state's waters, recognizing local differences in climate, topography, geology, and hydrology.

Each Regional Water Board has seven part-time members, also appointed by the Governor and confirmed by the Senate. Regional Water Boards develop "basin plans" for their hydrologic areas, issue waste discharge permits, take enforcement action against violators, and monitor water quality.

## State Water Resources Control Board – Members and Executive Director

	<p><b>E. Joaquin Esquivel</b> <b>BOARD CHAIR</b></p> <p>E. Joaquin Esquivel was appointed to the State Water Resources Control Board by Governor Jerry Brown in March 2017 and designated as Chair by Governor Gavin Newsom in February 2019. Previously, he served as Assistant Secretary for federal water policy at the California Natural Resources Agency in Governor Brown’s Washington D.C. office where he facilitated the development of policy priorities between the Agency, the Governor’s Office, the California Congressional delegation, and federal stakeholder agencies in the district.</p> <p>Prior to his position with the Natural Resources Agency, Mr. Esquivel worked for U.S. Senator Barbara Boxer of California for eight and a half years and held various positions. His last position was as Senator Boxer’s Legislative Assistant covering agriculture, Native American, water, oceans, and nutrition portfolios, in addition to being the Director of Information and Technology.</p> <p>Mr. Esquivel is a graduate of the University of California, Santa Barbara with a Bachelor of Arts degree in English. He was born and raised in California’s Coachella Valley.</p>
	<p><b>Dorene D’Adamo</b> <b>BOARD VICE CHAIR</b></p> <p>Dorene D’Adamo was appointed to the State Water Resources Control Board by Governor Brown in 2013 and was elected Vice Chair by her fellow Board members in 2018. She serves as the agriculture member of the Board. Ms. D’Adamo has served at the California Partnership for the San Joaquin Valley since 2007 and the Board of the Pacific Forest and Watershed Lands Stewardship Council. She has also served on the Governor’s Drought Task Force and was a member of the California Air Resources Board from 1999 to 2013 where she was instrumental in the board’s air quality and climate change programs and regulations.</p> <p>Ms. D’Adamo served in various capacities for members of Congress in the San Joaquin Valley over 20 years working primarily on environmental, water and agricultural legislative policy.</p>

	<p>Ms. D’Adamo earned a Bachelor of Arts degree from the University of California, Davis and her Juris Doctor from the University of the Pacific, McGeorge School of Law.</p>
	<p><b>Tam M. Doduc</b> <b>BOARD MEMBER</b></p> <p>Tam Doduc has served on the Board since 2005. Ms. Doduc serves as the civil engineer member of the Board. Prior to her appointment to the Board, Ms. Doduc served as Deputy Secretary at the California Environmental Protection Agency (CalEPA), where she directed the agency’s environmental justice and external scientific peer review activities. She also coordinated various environmental quality initiatives and provided general oversight of children’s environmental health programs.</p> <p>Ms. Doduc began her career in 1989 as an environmental consultant. She then joined the staff of the State Water Resources Control Board and later, the California Air Resources Board. From 1998 to 2002, Ms. Doduc provided technical and business assistance to environmental technology developers and manufacturers serving in the Office of Environmental Technology and later as Cal/EPA’s Assistant Secretary for Technology Certification. From 2002 to 2004 Ms. Doduc served as CalEPA’s Assistant Secretary for Agriculture, Air and Chemical Programs.</p> <p>Ms. Doduc is a licensed civil engineer. She earned a Bachelor of Science degree in BioEngineering from the University of California, Berkeley, and a Master of Science degree in Civil Engineering from California State University, Sacramento. She also earned a Master of Business Administration from the University of California, Berkeley.</p>
	<p><b>Sean Maguire</b> <b>BOARD MEMBER</b></p> <p>Sean Maguire was appointed to the State Water Resources Control Board in December 2018 by Governor Brown and is a registered civil engineer. Mr. Maguire has had a diverse career in both public service and as an engineering consultant, which provides a valuable perspective on the administrative challenges facing a government agency and needs of a broad array of water interests.</p>

From 2015 to 2018, Mr. Maguire worked for the State Water Resources Control Board as a manager of the Storm Water Grant Program in the Division of Financial Assistance, and later as a manager in the Division of Water Rights where he oversaw the administration of water right change petitions, licensing, and cannabis cultivation permitting. Prior to joining the Board, from 2003 to 2015, he worked for an engineering consulting firm serving a variety of municipalities and water agencies throughout the state, focused on water resources planning, drinking water, and wastewater infrastructure projects.

Much of his work revolved around integrated water management and developing long term water supply solutions to meet the needs of both water users and the environment.

Mr. Maguire has a Bachelor of Science degree in Civil Engineering from California State University, Sacramento.

	<p><b>Laurel Firestone</b> <b>BOARD MEMBER</b></p> <p>Laurel Firestone was appointed to the State Water Resources Control Board by Governor Gavin Newsom in February 2019. Prior to joining the Board, Ms. Firestone co-founded and co-directed, from 2006 to 2019, the Community Water Center (CWC), a statewide non-profit environmental justice organization. Based in California’s Central Valley and Central Coast, the CWC helps disadvantaged communities gain access to safe, clean, and affordable drinking water and build civic engagement and leadership to achieve the human right to water.</p> <p>Ms. Firestone has received a variety of awards and recognitions, including the James Irvine Foundation’s Leadership Award in 2018, and the Gary Bellow Public Service Award by the Harvard Law School in 2013. She also received an Equal Justice Works fellowship to start the Rural Poverty Water Project in the Central Valley in 2004 to 2006 as part of the Center for Race, Poverty and the Environment. Ms. Firestone served on the Tulare County Water Commission from 2007 to 2012 and co-chaired the Governor’s Drinking Water Stakeholder Group from 2012 to 2014. She served on a variety of state policy advisory committees and partnered with universities to develop research and clinical programs to ensure the human right to water. In 2009, Ms. Firestone authored the</p>
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comprehensive *Guide to Community Drinking Water Advocacy* and has written a variety of articles relating to safe drinking water and the environment.

Ms. Firestone earned a Juris Doctor degree from Harvard Law School and a Bachelor of Arts degree in Environmental Studies, Magna Cum Laude, from Brown University.



**Eileen Sobeck**  
**EXECUTIVE DIRECTOR**

**Eileen Sobeck** was elected Executive Director by the Board in August 2017. Ms. Sobeck has nearly 40 years of government service and more than two decades of executive and management experience leading professional staff in complex organizations. She has spent most of her career in federal agencies that touch on many of the same science-based, public resource challenges the State Water Resources Control Board faces.

Ms. Sobeck previously worked as the Assistant Administrator for Fisheries, National Oceanic and Atmospheric Administration (NOAA) within the U.S. Department of Commerce from 2014 to 2017. Prior to her work at NOAA she worked as the Department of Interior’s Acting Assistant Secretary for Insular Affairs from 2012 to 2014 and as Deputy Assistant Secretary for Fish and Wildlife and Parks from 2009 to 2012. Ms. Sobeck is a lawyer by training and spent 25 years at the U.S. Department of Justice, ultimately serving as Deputy Assistant Attorney General for Environment and Natural Resources from 1999 to 2009.

While Ms. Sobeck has spent her professional career in Washington, D.C., she has many ties to California. Ms. Sobeck earned a Juris Doctor degree from Stanford Law School and a Bachelor of Arts degree with distinction in Political Science from Stanford University. She grew up in Davis and has strong family connections to California.

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## I. INTRODUCTION

The California State Water Resources Control Board (State Water Board), Division of Financial Assistance (DFA) presents the Drinking Water State Revolving Fund (DWSRF) annual report for State Fiscal Year (SFY) 2018-19. The State Water Board provided approximately \$231.6 million in new DWSRF financing for 15 planning and construction projects to address drinking water issues. This report describes how the State Water Board met the objectives for the DWSRF program identified in the [SFY 2018-19 DWSRF Intended Use Plan \(IUP\)](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/iup_2018-19_dwsrf_intended_use_plan_iup) ([https://www.waterboards.ca.gov/drinking\\_water/services/funding/documents/srf/iup\\_2018/dwsrf\\_iup\\_sfy2018\\_19\\_final.pdf](https://www.waterboards.ca.gov/drinking_water/services/funding/documents/srf/iup_2018/dwsrf_iup_sfy2018_19_final.pdf)).

The federal Safe Drinking Water Act (SDWA), as amended in 1996, authorized the creation of the national DWSRF program to help public water systems (PWSs) achieve or maintain compliance with SDWA requirements and protect public health through the funding of drinking water infrastructure projects. Section 1452 of the SDWA authorizes the United States Environmental Protection Agency (USEPA) to award capitalization grants to state DWSRF programs, which in turn provide low interest and additional subsidized funding for the projects. More information about the DWSRF program is located on the State Water Board's DWSRF website at [https://www.waterboards.ca.gov/drinking\\_water/services/funding/SRF.html](https://www.waterboards.ca.gov/drinking_water/services/funding/SRF.html).

The State Water Board has promoted and protected the health and safety of Californians through the DWSRF since July 1, 2014. Previously, the California Department of Public Health and California's Health and Human Services Agency administered the DWSRF program. Since the beginning of the program, PWSs have received DWSRF funding for drinking water infrastructure improvements via below-market financing and additional subsidy (i.e. principal forgiveness). DWSRF funding is derived from federal capitalization grants from the USEPA as well as associated state match, revolving principal and interest repayments, and other leveraged funds and investment earnings.

DFA administers the DWSRF program and provides planning and construction financing through the DWSRF to eligible applicants, which include publicly and privately-owned community and non-profit, non-community water systems. DWSRF financing is generally prioritized for "ready-to-proceed" eligible projects based upon a public health benefits system where projects addressing acute and chronic primary drinking water standards are prioritized over projects addressing secondary drinking water standards and other aging infrastructure.

## II. FINANCIAL RESULTS

### A. Cumulative Financial Activity

To satisfy federal requirements and ensure the accuracy of the State Water Board's financial management of the DWSRF, audited financial statements for the year ending June 30, 2019 were completed February 26, 2020, and are included as Appendix E (page E-1) in this report. This section provides important financial highlights about the DWSRF as of June 30, 2019.

The State Water Board uses portions of the capitalization grant from USEPA, known as the set-asides, to provide for the administration of the DWSRF as well as provide services such as small water system technical assistance (SWSTA), and technical, managerial and financial (TMF) capacity development assistance for PWSs. The DWSRF set-asides also subsidize the Division of Drinking Water's (DDW) Public Water System Supervision (PWSS) and TMF Capacity Development programs. In past years the DWSRF set-asides have funded the implementation of a Source Water Protection (SWP) program.

As of June 30, 2019:

- The cumulative DWSRF funds available for planning and construction financial assistance since inception was approximately \$2.9 billion.
- An additional \$276.3 million of cumulative DWSRF set-aside funds were available.
- The State Water Board, and preceding departments/agencies, had committed approximately 112 percent (112%) of available funds to planning and construction projects through binding commitments (executed financing agreements).
- The State Water Board, and preceding departments/agencies, had disbursed approximately 88 percent (88%) of available funds for planning and construction projects, as well as disbursed 93 percent (93%) of the available DWSRF set-aside funds.

Cumulative DWSRF program activity from inception through the end of SFY 2018-19 is further described in Table 1 (page 10).

**Table 1: Cumulative Program Activity<sup>1</sup>**

<b>DWSRF Construction and Planning Funding</b>	
<b>Activity</b>	<b>Life of Program</b>
Number of Binding Commitments	470
Value of Binding Commitments	\$3.244 billion
Disbursements and Expenditures	\$2.572 billion <sup>2</sup>
Balance of Funding Agreements	\$705.232 million
<b>DWSRF Set-Aside Funding</b>	
DWSRF Set-Aside Amount	\$276.319 million
DWSRF Set-Aside Expenditures	\$255.868 million <sup>3</sup>
Balance of Set-Asides	\$18.786 million

The State Water Board funded a variety of planning and construction projects through the DWSRF in SFY 2018-19 to address a range of public water system (PWS) and public health issues. Specifically, the State Water Board funded projects from the DWSRF for the benefit of both small water systems (SWSs) (populations less than 10,000 people) and large water systems (populations over 10,000 people). The projects funded were categorized according to their function.

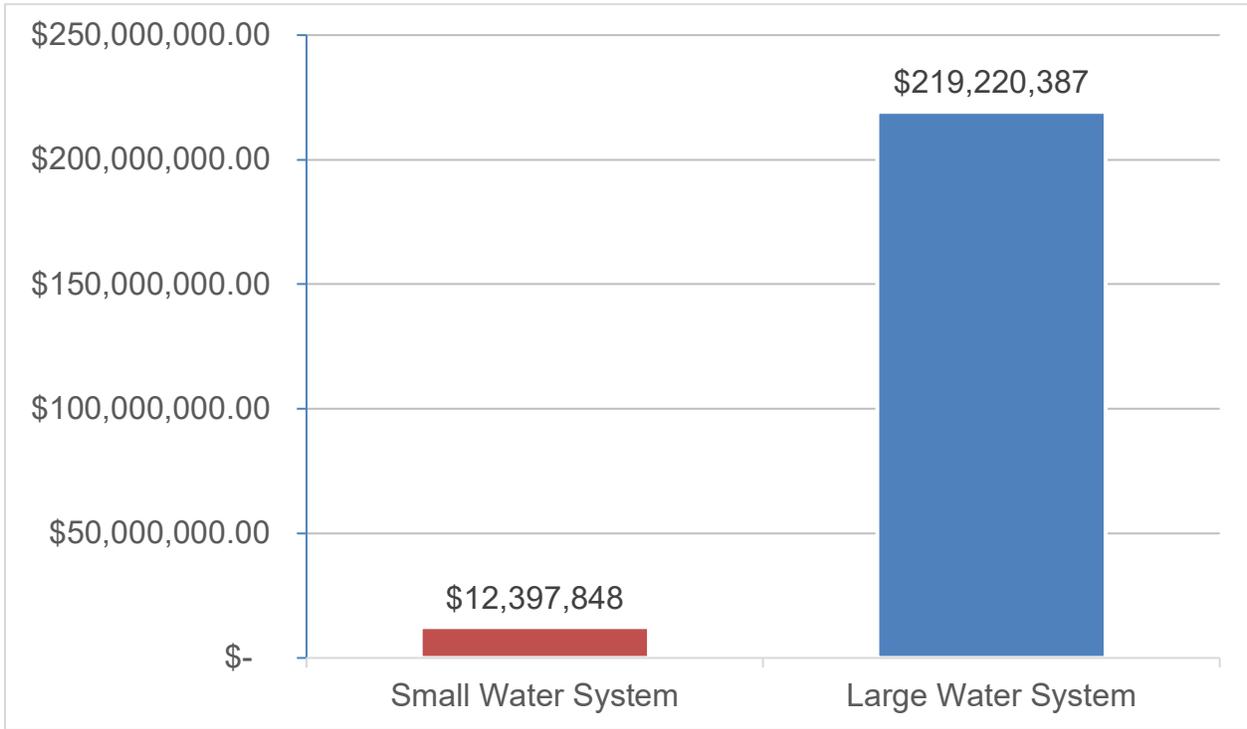
Figure 1a (page 11) shows the amount of funding awarded to small and large water systems in SFY 2018-19. In summary, the State Water Board provided approximately eighteen times (18x) more funding for large water systems than SWSs.

<sup>1</sup> Program activity includes all available DWSRF funds, including DWSRF set-aside funds and matching funds provided by funding recipients.

<sup>2</sup> Amount includes American Recovery and Reinvestment Act of 2009 (ARRA) funds and excludes set-aside funds (including Legal Entity Formation Assistance (LEFA) and a recent DWSRF set-aside grant to the American Water Association).

<sup>3</sup> Amount includes LEFA and a recent DWSRF set-aside grant to the American Water Association.

**Figure 1a: SFY 2018-19 DWSRF Large / Small Water System Funding Distribution**



However, the State Water Board funded almost twice as many SWS projects than large water system projects in SFY 2018-19. A greater amount of SWS projects receive funding because of their public health needs, while a greater amount of funding is provided to large water systems because of the larger scope and cost of these large water system projects. See Exhibit A (page 35) for a list of SWS projects that received funding for SFY 2018-19.

Figure 1b (page 12) shows the number of projects funded by size of water system.

**Figure 1b: SFY 2018-19 DWSRF Number of Projects Funded by Public Water System Size**

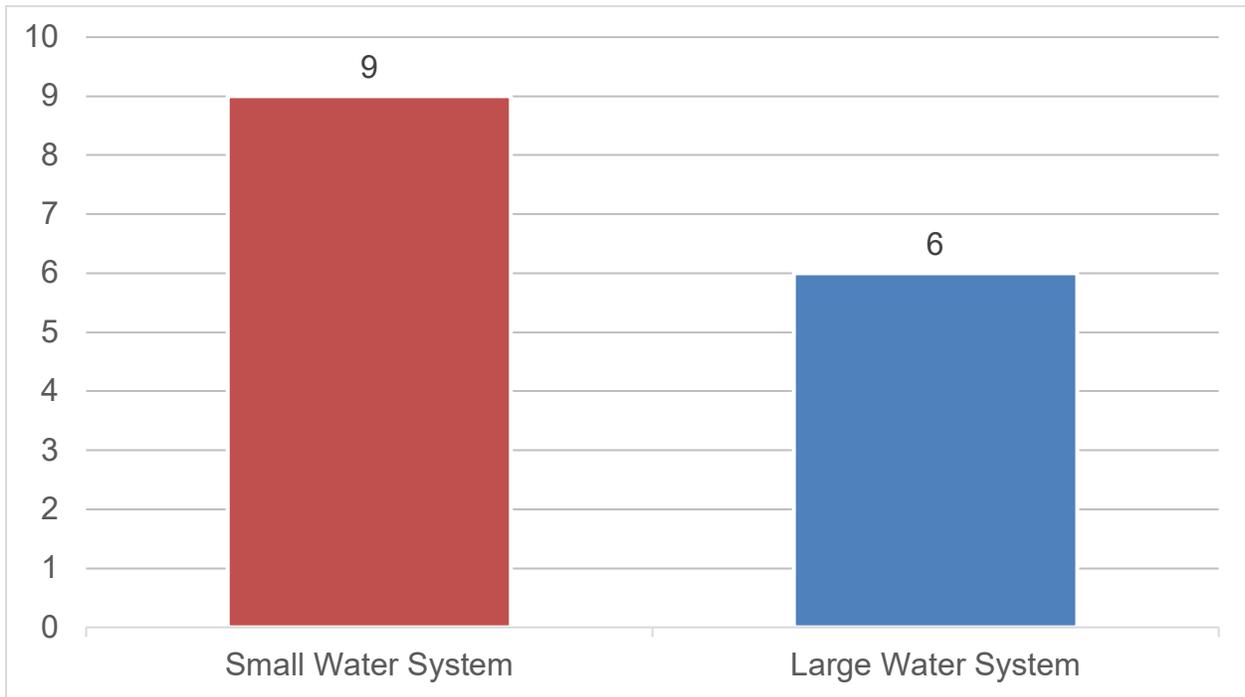


Figure 2a shows the amount of funding awarded to planning and construction applications.

**Figure 2a. SFY 2018-19 DWSRF Planning vs Construction Funding Distribution - Funding Amount**

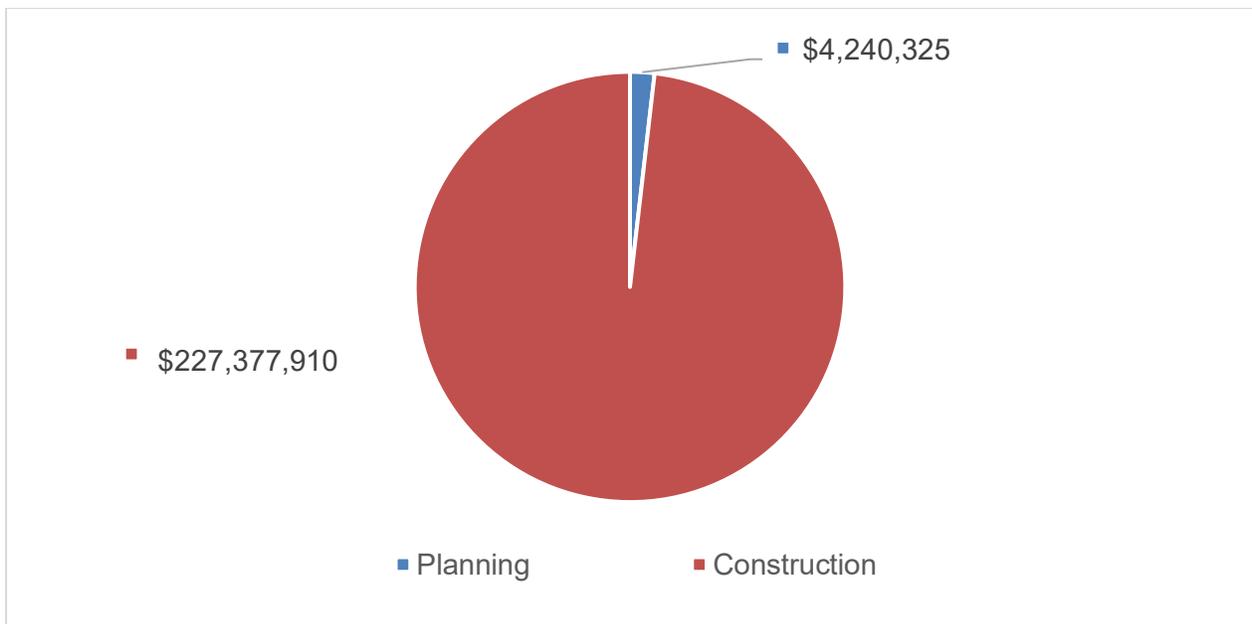
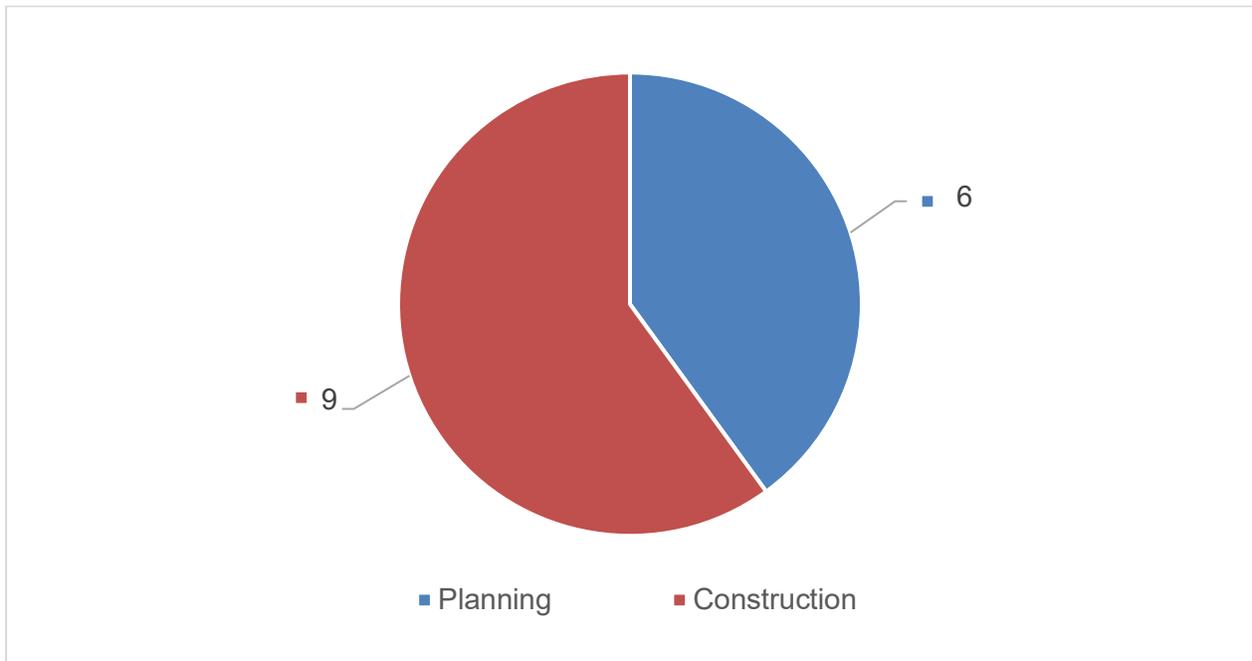


Figure 2b below displays the number of planning versus construction projects that were awarded funding in SFY 2018-19.

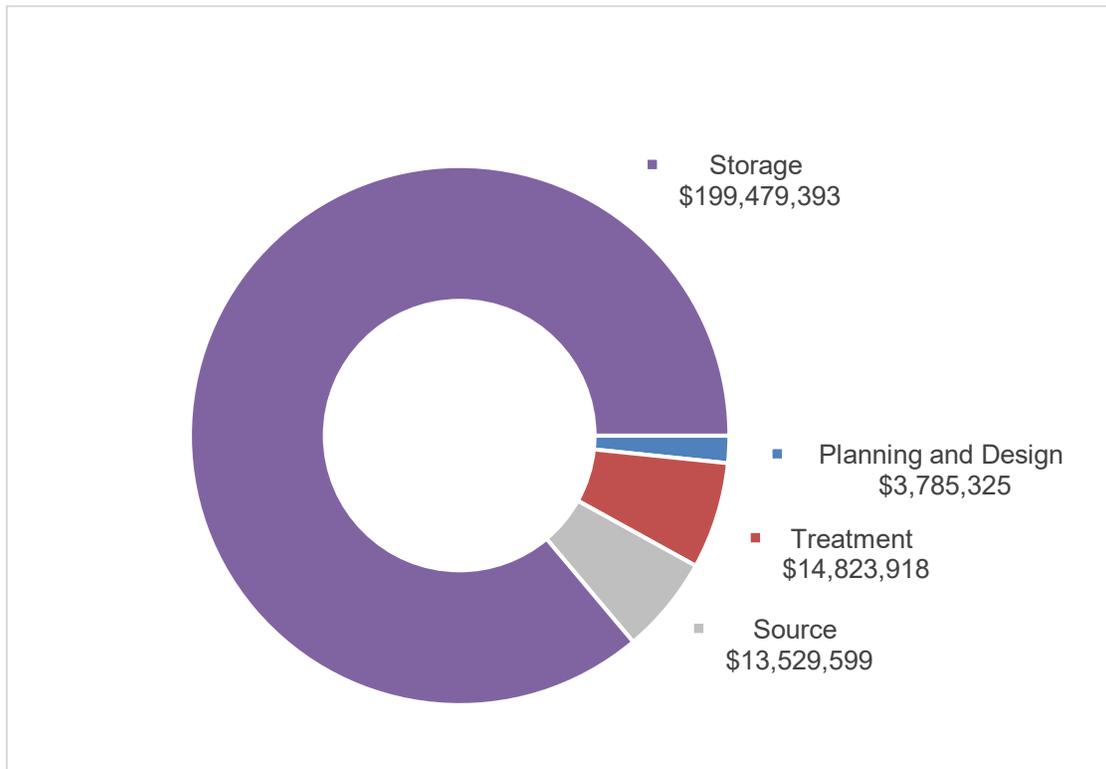
**Figure 2b. SFY 2018-19 DWSRF Planning vs Construction Funding Distribution - Number of Projects**



The State Water Board provided approximately fifty-four times (54x) more DWSRF funding for construction projects versus planning projects with \$227,377,910 of funding for construction projects and \$4,240,325 of funding planning projects. Numerically, the State Water Board funded almost twice as many construction projects than planning projects in SFY 2018-19 with 9 construction projects and 6 planning projects. A greater amount of construction projects received funding in SFY 2018-19, as opposed to recent historical averages, because planning projects were generally prioritized for other complimentary funding sources of the DWSRF. As a result, both the DWSRF and its complimentary funding sources were maximized and utilized both timely and expeditiously.

Figure 3 (page 14) shows the DWSRF SFY 2018-19 funding by project type and its associated function in the provision of drinking water. Project types included planning and design, treatment, transmission and distribution, source water, and storage. In summary, a vast majority of SFY 2018-19 DWSRF financing was provided for the improvement of drinking water storage. This is primarily because of their greater cost, needs resulting from severe drought impacting the state in recent years, and the addressing impacts of climate change. Approximately eighty-six percent (86%) of the project costs, or \$199,479,393 funded in SFY 2018-19 were for storage projects.

**Figure 3: SFY 2018-19 Percentage of DWSRF Funding by Project Type/Function**



## B. Net Position

Net assets of the DWSRF program are shown below:

**Table 2: DWSRF Statement of Net Position**  
(Dollars in Thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current Assets	\$368,551	\$284,102
Other Assets	\$1,484,933	\$1,534,201
<b>Total Assets</b>	<b>\$2,001,922</b>	<b>\$1,818,303</b>
<b>Liabilities</b>		
Current Liabilities	\$118,018	\$8,919
Non-Current Liabilities	\$95,233	\$0
<b>Total Liabilities</b>	<b>\$22,785</b>	<b>\$8,919</b>
<b>Net Assets</b>		
Restricted	\$160,534	\$0
Unrestricted	\$1,723,370	\$1,809,384
<b>Total Net Assets</b>	<b>\$1,883,904</b>	<b>\$1,809,384</b>

## C. Revenues and Contributions

Revenue and Contributions for the DWSRF program are described in its Financial Statements. The total revenues for SFY 2018-19 were \$218,391,000. Revenues for the period of this report were as follows:

**Table 3: SFY 2018-19 DWSRF Revenues & Contributions**  
(Dollars in Thousands)

Loan Interest Income	\$22,477
Net Investment Income	\$3,285
Capitalization Grant Contributions	\$67,720
Capitalization Grants Contributions – Principal Forgiveness	\$2,047
State Match Revenue- Loans	\$727
State Match Revenue – Principal Forgiveness:	\$21,329
Series 2019 DWSRF Revenue Bonds	\$100,806

## D. Disbursements and Expenses

Total disbursements are based on Financial Statements and do not include matching funds provided by funding recipients. Total disbursements for SFY 2018-19 were \$200,982,000. Disbursements for the period of this report were made as follows:

**Table 4: SFY 2018-19 DWSRF Disbursements and Expenses**  
(Dollars in Thousands)

### DISBURSEMENTS

Loan disbursements	\$177,288
Grants disbursements	\$0
Principal Forgiveness disbursements	\$23,694

### EXPENSES

Operating Expense - Personnel Services	\$11,421
Operating Expense - Other Expenses	\$6,804
Revenue Bond Interest Expense	\$366
Revenue Bond Issuance Cost	\$780

## **E. Credit Risk of the DWSRF**

Each funding recipient must pledge or dedicate one or more sources of revenue toward the payment of its DWSRF repayable financing. For publicly owned entities, dedicated sources of revenue are generally water rate revenues, but may also be any number of revenue sources, special tax pledges, or other pledgeable income. For privately owned entities, the dedicated source of repayment is generally a Uniform Commercial Code (UCC)-1 security interest by the State Water Board on all the entity's revenues, fixtures, and equipment.

In SFY 2018-19, the State Water Board restructured three agreements. The State Water Board approved a loan modification for Shasta Community Services District (4510013-003C), a PWS serving a small DAC, as a result of the Carr Fire. The loan modification extended the loan repayment term to thirty (30) years, reduced the interest rate to 0 percent (0%) for the remaining term of the loan, and provided forbearance of loan repayments for five (5) years.

On January 8, 2019, the State Water Board approved Resolution No. 2019-0002 authorizing the Deputy Director of DFA to modify the terms of financing agreements for communities affected by the fires in 2018. Paradise Irrigation District (0410007-001P), a PWS serving a small DAC, requested a modification of their current terms as a result of the Camp Fire. DFA amended their financing agreement to one hundred percent (100%) principal forgiveness and extended the final disbursement request date. Del Oro Water Company (0410017-001C), a privately-owned PWS, serving communities affected by the Camp Fire also requested a modification. DFA extended their loan repayment term to 30 years with no changes to the interest rate.

In SFY 2018-19, there was no allowance for uncollectible accounts as all repayments remained current and all repayable financings were anticipated to be repaid in accordance with the financing terms. As in prior years, there were no repayment defaults in the DWSRF program and State Water Board staff continued to work diligently to ensure funding agreements were secure, and all payments were made on time and in full. Staff efforts included using a variety of analysis and monitoring measures to reduce the possibility of non-payment and continually evaluating additional steps to ensure full and timely payments.

### **1. Extended Term Financing and Reduced Interest Rate**

In accordance with federal rules and regulations, the State Water Board continued to provide extended term financing (ETF) in the form of 30-year loan repayment terms to funding applicants that served Disadvantaged Communities (DACs). The State Water Board also provided ETF to publicly owned PWSs for construction projects in accordance with USEPA's policy on ETF. In SFY 2018-19, five (5) projects received approximately \$208,635,271 in ETF as shown in Exhibit B (page 36).

ETF for DACs has historically proven to be more manageable financing for funding recipients than twenty-year financing. Providing ETF for DACs has not jeopardized the financial strength of the DWSRF program, but instead has led to an increased demand for funding. This has provided a steadier flow of funds returning to the program. This demand has been critical in the State Water Board's reduction of historical Unliquidated Obligations (ULOs). Similarly, providing 30-year ETF to publicly owned PWSs serving non-DACs has attracted municipalities with excellent credit strength to further bolster the financial health of the DWSRF as well as ensure the timely and expeditious use of DWSRF funds.

Prior to 2015, state law permitted zero percent (0%) interest rate loans from the DWSRF if the funding applicant served a DAC, regardless of the water system size. In 2015, the California Legislature directed the State Water Board to provide zero percent (0%) interest rate financing if the funding recipient served a DAC with financial hardship. The State Water Board's DWSRF Policy defines financial hardship to mean the funding applicant is a SWS with high residential water rates. In its IUPs beginning in SFY 2015-16, to ensure the long-term financial growth of the fund while considering the financial limitations of certain PWSs types, the State Water Board has limited zero percent (0%) interest rate financing to SWSs serving DACs and eligible Expanded Small Community Water Systems (ESCWSs) serving Severely Disadvantaged Communities (SDACs).

### III. PUBLIC HEALTH BENEFITS

The contributions of the DWSRF program to public health and drinking water quality are diverse. The program has the strength and versatility to address a wide range of water quality issues. To the maximum extent possible, in SFY 2018-19, priority was given to projects that addressed the most serious risks to human health, were necessary to ensure compliance with SDWA requirements, and assisted water systems most in need on a per household basis. Projects were ranked by the categories below:

<b>Public Health Category</b>	<b>Description</b>
Category A:	Immediate Health Risk
Category B:	Untreated or At-Risk Sources
Category C:	Compliance or Shortage Problems
Category D:	Inadequate Reliability
Category E:	Secondary Risks
Category F:	Other Projects

The information below summarizes the public health benefits from DWSRF projects funded. The data supporting this summary was reported to the USEPA through the DWSRF Project Benefits Reporting (PBR) database.

#### A. Projects in SFY 2018-19 Will Help Achieve and Maintain SDWA Goals

1. There were 15 projects funded by the DWSRF program.
2. An estimated 12.1 million people reside within the boundaries of the projects funded.
3. An estimated \$13.2 million principal forgiveness was provided to these projects.
4. Projects funded by the DWSRF program fall into the categories noted earlier, as defined in the DWSRF Policy, Section VI.B.2. The projects funded, and their categories were as follows in Table 5 (page 19).

**Table 5: Water System Improvements by Category**

Public Health Category	Number of Projects Financed	Population	Financed Amount	Principal Forgiveness
Category A:	1	135	\$825	\$ 825
Category B:	1	3,987,622	\$ 158,190,000	\$0
Category C:	8	86,208	\$ 34,853,627	\$ 10,529,165
Category D:	2	3,991,424	\$ 28,708,893	\$ 2,215,930
Category E:	2	19,499	\$ 736,500	\$ 500,000
Category F:	1	3,987,622	\$ 9,128,390	\$ 0
<b>Total</b>	<b>15</b>	<b>12,072,510</b>	<b>\$ 231,618,235</b>	<b>\$ 13,245,920</b>

Figure 4a below shows the number of projects funded by improvement category.

**Figure 4a: Water System Improvements by Categories**

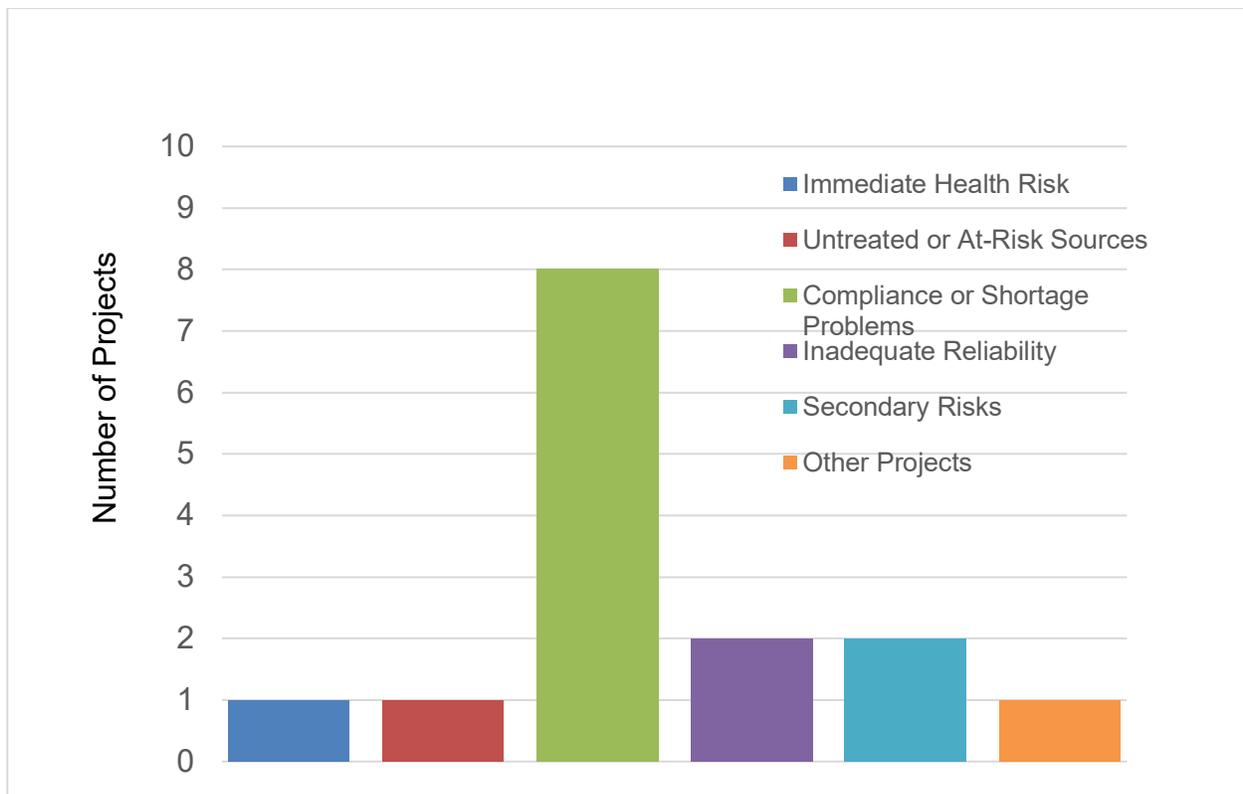
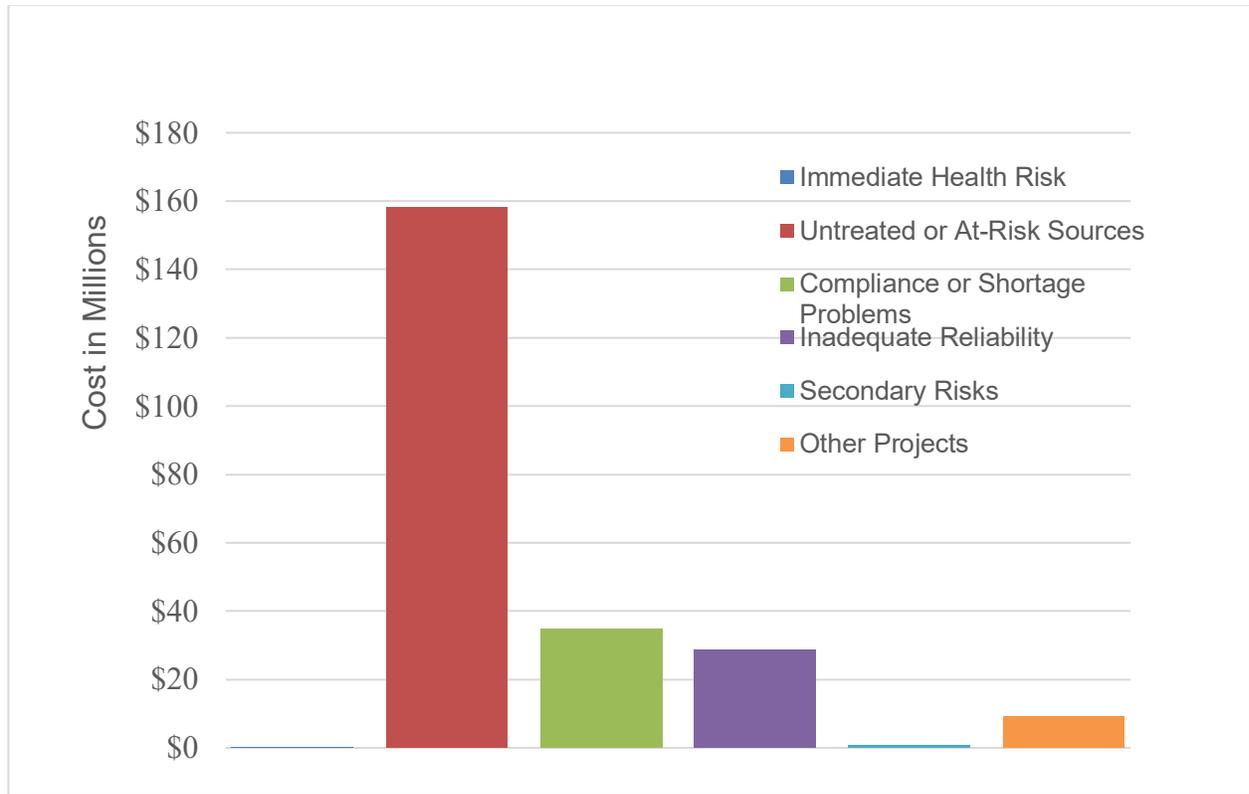


Figure 4b below shows the amount funded by improvement category.

**Figure 4b: Water System Improvements by Categories**



## B. DWSRF Projects Achieve Multiple Benefits

DWSRF projects provide multiple benefits to water systems including Maximum Contaminant Levels (MCL) compliance, source, quantity, and reliability, distribution pipeline, treatment plant improvements, storage, and consolidation. Table 6 (page 21) shows the many benefits provided by DWSRF projects in SFY 2018-19. Over half of the projects funded were for MCL compliance and storage solutions, while 85% of the costs fell into the storage benefit category. Storage infrastructure funding was the focus of the state's funding demand in SFY 2018-19.

**Table 6: Water System Improvements by Benefits**

<b>Benefits</b>	<b>No. of Projects</b>	<b>Cost</b>
MCL Compliance	4	\$6,760,665
Source, Quantity, and Reliability	3	\$14,804,441
Distribution Pipeline	1	\$500,000
Treatment Plant Improvements	1	\$10,823,918
Storage	5	\$196,179,211
Consolidation	1	\$2,550,000
	<b>15</b>	<b>\$231,618,235</b>

Figure 5a below shows the number of projects receiving each water system improvement benefit.

**Figure 5a: Water System Improvements by Benefits**

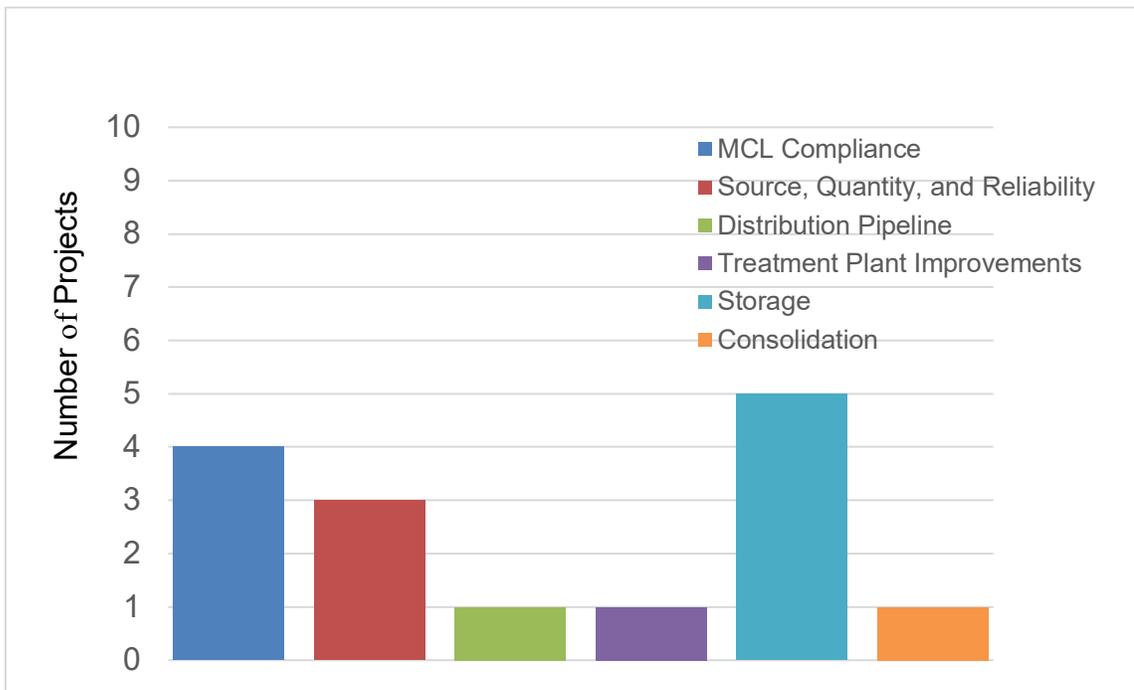
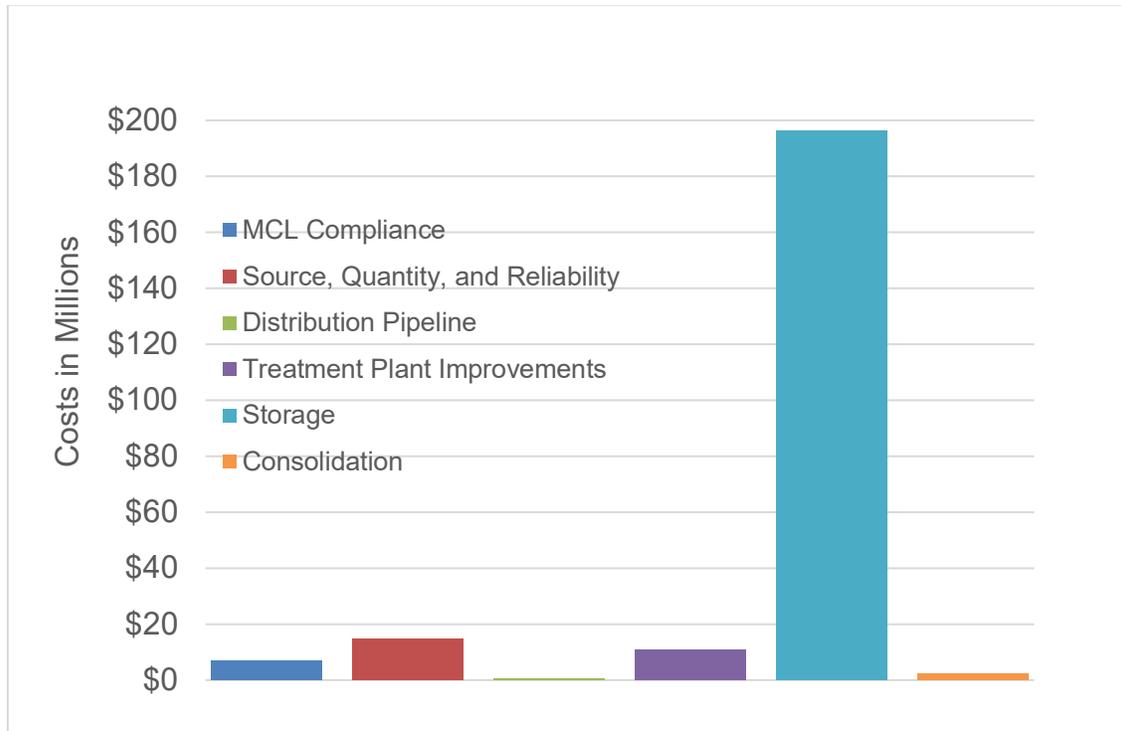


Figure 5b below shows the amount funded for each water system improvement benefit.

**Figure 5b: Water System Improvements by Benefits**



## **IV. PROGRAM HIGHLIGHTS AND UPDATES**

In SFY 2018-19, the State Water Board continued to fund drinking water projects to provide safe and affordable drinking water for all Californians and continued to pair DWSRF financing with other funds appropriated to the State Water Board to achieve its drinking water objectives.

### **A. Providing Safe and Affordable Drinking Water to All Californians**

Clean and safe drinking water is a fundamental human right and is essential to health and well-being. The State Water Board through DDW and DFA works cooperatively to protect California's drinking water and help ensure that all Californians have access to clean, safe, and affordable drinking water through several regulatory and financial assistance programs.

The DWSRF program, along with other sources of funds available to the State Water Board, help improve drinking water infrastructure to mitigate drinking water risks and support the human right to water. A key element of DFA's effort to address safe and affordable drinking water in California is the Office of Sustainable Water Solutions (OSWS). The OSWS was created to focus on small SDACs and small DACs and the difficulties those communities have in providing safe and affordable drinking water to their residents.

In SFY 2018-19, select DFA staff and management were re-organized to increase the resources of the OSWS and address the substantial demand from SDACs and DACs for affordable drinking water and wastewater funding. The OSWS increased from one to two sections to serve the drinking water and wastewater funding and technical assistance needs of SDACs and DACs in northern and southern California.

Although the reorganization has had a positive effect on addressing the drinking water and wastewater needs of small SDACs and small DACs, the Legislature has taken additional steps to address the drinking water needs of Californians. The Legislature on July 15, 2019, passed and the Governor on July 24, 2019, signed Senate Bill 200 creating the "Safe and Affordable Drinking Water Fund." The Safe and Affordable Drinking Water Fund (SADWF) will help drinking water systems provide an adequate and affordable supply of safe drinking water. The SADWF authorizes and continuously appropriates moneys to the State Water Board for grants, loans, contracts, or services to assist eligible recipients with the provision of an adequate supply of affordable and safe drinking water. Additional staffing is also authorized to implement the SADWF, and the added staffing will continue to strengthen and support the State Water Board's efforts to ensure that all Californians have access to safe and affordable drinking water.

The State Water Board and DFA continued to implement and award funding to planning and construction projects using DWSRF and Proposition 1 (Prop 1) and Proposition 68 (Prop 68) Drinking Water funds. With its integrated approach to funding, \$249.432 million of funding was awarded to 21 planning and construction projects in SFY 2018-19. Seventeen of the projects awarded funding during SFY 2018-19 were for small DACs or small SDACs. Exhibit C (page 37) lists the Small Community Grant Drinking Water (SCG-DW) projects for SFY 2018-19. As of June 30, 2019, a cumulative amount of \$127.5 million of Prop 1 and Prop 68 Drinking Water grant funds had been awarded to SWSs serving small SDACs and small DACs.

The State Water Board's joint management of the DWSRF and the Prop 1 and Prop 68 Drinking Water funds enables California to provide significant financial benefits to California's PWSs, especially those PWSs serving small SDACs and small DACs. The Deputy Director of DFA was authorized to provide, for good cause, up to \$45,000 per service connection in principal forgiveness/grant for a SWS that serves a DAC, and the SDWA allows 40-year financing for DACs. These tools can be highly effective in providing safe and affordable drinking water to the neediest of communities.

## **B. Demand Management**

### **1. Grant and Principal Forgiveness for SWSs Serving DACs**

Demand from SWSs serving SDACs and DACs for grants and DWSRF principal forgiveness continued to outpace the availability of those funds. All Prop 1 Drinking Water grant funds were effectively committed as of June 30, 2018, with minor balances remaining for potential cost increases on existing commitments in SFY 2018-19. The available DWSRF principal forgiveness funds were also effectively fully committed at the beginning of SFY 2018-19, although approximately \$49 million of additional principal forgiveness became available during SFY 2018-19 from the FFY 2018 Capitalization Grant. As of June 30, 2019, none of the FFY 2018 Cap Grant principal forgiveness was committed to eligible projects due to delays in awarding funds resulting from the State Water Board's implementation and conversion to the Financial Information System for California (FI\$Cal).

\$62.25 million in Prop 68 funds were appropriated for SFY 2018-19 for drinking water projects (Prop 68 Drinking Water), and the 2018-19 DWSRF IUP incorporated Prop 68 funds into the existing Drinking Water program. Similarly, as of June 30, 2019, none of the Prop 68 grant funds had been committed to projects benefiting SWSs serving DACs due to FI\$Cal implementation and conversion delays.

An additional \$169 million in Prop 68 Drinking Water grant funding has been appropriated for SFY 2019-20, and an additional \$53.4 million in principal forgiveness funding will be available from the 2019 Capitalization Grant. It is anticipated the State Water Board will resume the routine commitment of principal forgiveness and grant funds to small DACs in SFY 2019-20 with normalization of FI\$Cal operations. The State Water Board continues to work closely with DDW to maximize the effectiveness of any and all available grant and principal forgiveness funds to provide clean, safe, and affordable drinking water to small SDACs and small DACs throughout California.

## **2. Repayable Funds for Systems serving Non-DACs**

Demand for DWSRF repayable financing was consistent with historical trends. The total amount committed to repayable financings for SFY 2018-19 was less than the funding target. However, DFA continues to develop and review applications for repayable financing as resources permit. In addition, the Safe Drinking Water Act was recently changed to allow 30-year financing for all publicly owned PWSs; this change is also expected to generate additional demand for DWSRF repayable financing in the coming years.

## **C. DWSRF Leveraging Activity**

The DWSRF funding target for SFY 2018-19 was based on a 20-year capacity analysis in accordance with the CWSRF/DWSRF Debt Management Policy. The Debt Management Policy helps to ensure that the DWSRF program is operated in a prudent and sustainable manner and prevent the DWSRF from becoming over-leveraged. Given recent lending activity, the State Water Board determined that additional capital may be needed to meet past commitments. The State Water Board, through its conduit issuer, the California Infrastructure and Economic Development Bank (IBank), issued approximately \$100 million in revenue bonds on April 24, 2019. The bonds are secured by a series of DWSRF loans, and the proceeds were used to fund 8 projects that are currently under construction. The DWSRF Revenue Bond funded projects are listed in Exhibit J (page 59)

## **D. FI\$Cal Rollout**

FI\$Cal is California's new statewide accounting, budget, cash management, and procurement system. Since July 2013, state agencies have been transitioning to the FI\$Cal system; the State Water Board began its FI\$Cal transition July 1, 2018. Although State Water Board staff worked overtime and staff were redirected to address the additional, short-term workload associated with the rollout, the pace of new financing agreements was considerably less than in the previous three years as seen in Section II.D (page 15). The lower pace of new agreements continued in SFY 2019-20, but the overall pace of new financing agreements is anticipated to normalize in SFY 2020-21.

Although the pace of new agreements was lower this past year, disbursements were less affected by the FI\$Cal rollout. The total number of DWSRF disbursements and dollar amount for SFY 2018-19 were 264 and \$211.5 million. The average number of DWSRF disbursements and dollar amount for the three previous years were 480 and \$256 million per year.

## **E. Comprehensive List**

The Comprehensive List identified projects potentially eligible for funding assistance from the DWSRF program. As DFA received applications, it assigned each project a category from Section V.C.1 of the DWSRF Policy, then recommended that the Executive Director of the State Water Board, in consultation with DDW, either add the project to the Comprehensive List or update an existing project. The Executive Director updated the Comprehensive List three times.

## **F. Fundable List and Project Bypass**

There were 123 projects identified on the fundable list of projects in the SFY 2018-19 IUP. Of these 123 projects, 53 were planning and 70 were construction projects. The DWSRF program awarded funding to 9 planning projects and 6 construction projects. SCG-DW funds were awarded to 9 projects. The remaining projects' statuses is noted in Exhibit D (page 38). Several of the projects not funded in SFY 2018-19 are anticipated to be funded in SFY 2018-19.

## **G. Marketing Updates**

State Water Board staff continued to participate in the California Financing Coordinating Committee (CFCC) funding fairs during SFY 2018-19. The funding fairs provide members of the public and infrastructure development professionals current information on funding options available for different project types.

State Water Board staff also participated in several conferences throughout the year to provide updated information on the DWSRF Program. These conferences included the League of California Cities 2018 Annual Expo Conference, the Association of California Water Agencies 2019 Spring Conference, American Water Works Association Annual Fall Conference, 2018 California Special Districts Association Annual Conference, and the 2019 WaterReuse California Annual Conference.

## **H. Technical Assistance**

The DWSRF program budgeted two percent (2%) of the FFY 2018 Capitalization Grant along with prior year capitalization grants for Small Water System Technical Assistance (SWSTA). The primary goals of SWSTA are to reduce the instances of non-compliance with drinking water standards and requirements, establish and assure safe and dependable water supplies, improve operational capability, and establish or improve the TMF capacity of SWSs.

The SWSTA set-aside funded technical and administrative staff within DFA to provide technical assistance to SWSs. DFA staff helped SWSs identify drinking water problems and potential solutions, helped them prepare funding applications, reviewed TMF assessments, and evaluated potential funding eligibility. Staff also helped resolve ownership issues, right-of-way disputes, facilitated potential water interties and consolidation projects with adjacent water systems.

The SWSTA set-aside also provided partial funding for technical and administrative staff of the Proposition 84 (Prop 84) funding program. They prepared Prop 84 planning projects for SWSs that led to DWSRF construction funding.

The budget and expenditures of the SWSTA set-aside as of June 30, 2019 are shown in Exhibit F (page 52).

## **I. Small Community Funding Program**

The State Water Board and DFA continued to implement and award funding to planning and construction projects using DWSRF and SCG-DW funds. Due to extensive coordination between funding sources, \$22.59 million of DWSRF funding was awarded to small DACs for 8 planning and construction projects in SFY 2018-19.

In SFY 2018-19, \$19.314 million of SCG-DW grant funds were also awarded to small DACs for 9 planning and construction projects separately from the DWSRF. Exhibit C (page 37) lists the 9 projects funded exclusively by SCG-DW in SFY 2018-19. As of June 30, 2019, a cumulative amount of \$130.1 million of SCG-DW grant funds had been awarded to SWSs serving DACs/SDACs.

The State Water Board's co-management of DWSRF and SCG-DW funds further enabled California to capitalize and maximize state match for the DWSRF while simultaneously providing financial benefits to California's SWSs, especially those PWSs serving small DACs. The tremendous amount of funding provided through the DWSRF in SFY 2018-19 has also enabled the State Water Board to maintain a low and acceptable federal ULO balance for the near future.

## **J. Proposition 68 Update**

On June 5, 2018, California voters approved Prop 68 the California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018 (Senate Bill 5, DeLeon), which provides general obligation bond funding to the State Water Board for various wastewater, drinking water, water recycling and other related projects that will complement the funding provided under the DWSRF. Prop 68 provided \$250 million for grants and loans for projects to improve access to safe drinking water (Prop 68 Drinking Water) and projects to improve water quality under the CWSRF SCG, with priority given to projects that help DACs. Prop 68 directed that Prop 68 Drinking Water funds be administered in accordance with the Prop 1 Drinking Water Program requirements. The DWSRF 2018-2019 IUP was adopted in June of 2018 and reaffirmed the Prop 1 Drinking Water guidelines, expanding them to incorporate Prop 68 Drinking

Water conditions. Additional detailed information for Prop 68 can be found in section IV.B.1 (page 24).

### **K. Consolidation Incentive Program**

The DWSRF continued to offer the consolidation incentive identified in the IUP, but did not receive any requests for the incentives during SFY 2018-19. The State Water Board will continue, however, to offer the incentives to potential consolidation projects. With the advent of the SADWF program, there may be additional demand for consolidation financing. DFA will continue to evaluate the terms associated with the incentives, and may recommend changing the incentives, including on a case-by-case basis, to the State Water Board.

### **L. DWSRF Source Water Protection Program**

California established the DWSRF program with federal capitalization grants awarded by the USEPA. A portion of these funds was set-aside for SWP loans.

Funding for the SWP program provides loans to PWSs for the purchase of land or conservation easements. PWSs may only purchase land or a conservation easement from willing parties. The purchase must be for the purposes of protecting the system’s source water and ensuring compliance with national drinking water regulations. The DWSRF program evaluated all projects using the priority system described within the IUP in effect at the time such SWP loans were awarded.

As of SFY 2018-19, the program had set aside a total of \$24,889,390 from the FFY 2000-2005 Capitalization Grants for this program, but, due to lack of demand from PWSs, subsequent federal grant amendments returned \$22,889,390 from the FFY 2000-2005 Capitalization Grants to the DWSRF infrastructure loan fund. As shown in Table 7 below, \$2,000,000 has been committed and expended for SWP loans.

**Table 7: Source Water Protection Loan Set-Asides**

<b>Funding Recipient</b>	<b>Project No.</b>	<b>Category</b>	<b>Population</b>	<b>Executed FA Date</b>	<b>Contract No.</b>	<b>Loan Amount</b>	<b>Grant Amount</b>	<b>Total Funding Assistance</b>
Contra Costa Water District	0710003-017	SWP	201,100	9/1/2003	2001SW P101	\$2,000,000	\$0	\$2,000,000

## **V. SET-ASIDES**

The DWSRF program used a percentage of each federal capitalization grant as “set-asides” in SFY 2018-19 to fund the administration of the DWSRF program as well as other activities critical to the success of the program. The set-aside accounts included DWSRF Administration, SWSTA, State Program Management, and Local Assistance Special Programs. These set-asides aided in either administering the DWSRF program or providing funding and other technical assistance to PWSs. The State Water Board budgeted 23 percent (23%) of the FFY 2018 Capitalization Grant for all four (4) set-asides, totaling \$25,477,660. As of June 30, 2019, the State Water Board had expended \$8.44 million of the funds budgeted for set-aside activities from the FFY 2018 Capitalization Grant.

### **A. Administration Set-Aside**

The State Water Board budgeted four percent (4%) of the FFY 2018 Capitalization Grant, totaling \$3,919,640 along with prior years’ DWSRF Administration set-aside funds in SFY 2018-19 for the management of the DWSRF program by DFA, Division of Administrative Services (DAS), Division of Information Technology (DIT), and the Office of Chief Counsel. The DWSRF Administration set-aside funded technical and administrative personnel within DFA who prepared construction and planning approvals and agreements, inspected and evaluated projects, and processed claims for reimbursement. The Administration set-aside also funded personnel activities associated with various project tracking and reporting required by USEPA as well as other state and federal agencies. The Administration set-aside also funded legal activities within the State Water Board’s Office of Chief Counsel relating to the review of agreements and legal advising on a variety of programmatic issues including the IUP, anticipated revenue bond requirements, and implementation of various State and federal requirements. Finally, the DWSRF Administration set-aside funded a variety of administrative support from DAS and DIT, including accounting and budget office support as well as IT support.

A portion of the Administration set-aside also funded state procurement contracts with other entities, such as the accounting firm CliftonLarsonAllen. CliftonLarsonAllen completed the federal single-audit of the DWSRF program for SFY 2017-18 on October 1, 2018 and produced audited financials for the DWSRF program, which are included as Appendix E (page E-1).

The budgeting and expenditures of the DWSRF Administration set-aside, as of June 30, 2019, are shown in Exhibit E (page 47).

### **B. Small Water System Technical Assistance Set-Aside**

The State Water Board budgeted two percent (2%) of the FFY 2018 Capitalization Grant, totaling \$1,959,820, along with prior year set-aside funds for SWSTA in SFY 2018-19. The SWSTA set-aside funded DFA staff to provide technical assistance to SWSs. The primary goal of DFA’s SWSTA is to assist SWSs to become eligible for

DWSRF financing to reduce the instances of non-compliance with drinking water standards and requirements; establish and assure safe and dependable water supplies; improve operational capability and establish or improve their TMF capacities.

Assistance included helping SWSs identify drinking water problems and potential solutions, assisting in the preparation of funding applications, reviewing TMF assessments, and evaluating potential funding eligibility. Staff also helped resolve ownership issues, right-of-way disputes, as well as interceded and mediated with adjacent water systems regarding potential water interties and consolidation projects. The SWSTA also enabled DFA technical and administrative staff to assist third-party technical assistance providers and their suite of tasks further described below.

The budgeting and expenditures of the SWSTA Set-Aside as of June 30, 2019, are shown in Exhibit E (page 47).

### **C. Local Assistance Set-Aside**

The State Water Board budgeted ten percent (10%) of the FFY 2018 Capitalization Grant along with prior year capitalization grants in SFY 2018-19, for technical assistance to PWSs to support the State Water Board's TMF Capacity Development Strategy. A majority of the Local Assistance set-aside funds were expended for third-party technical assistance contracts with California Rural Water Association (CRWA), Rural Community Assistance Corporation (RCAC), and Self-Help Enterprises (SHE). CRWA, RCAC and SHE provided on-site technical assistance to 86 PWSs, including income surveys, water rate studies, and DWSRF application development. They also provided or participated in a variety of online and onsite workshops, symposiums and fairs, which benefited over 1862 PWSs in SFY 2018-19.

CRWA, RCAC, and SHE also provided TMF assistance in SFY 2018-19, including mutual water company board training, PWS operation training, and water system ownership research. The California-Nevada chapter of AWWA provided technical assistance in the validation of water audits for urban water suppliers in support of the State Water Board's Capacity Development Strategy.

In addition, RCAC developed and conducted statewide onsite and online training workshops that focused on building the TMF capacity of PWSs. In SFY 2018-19, RCAC held two California Technical Assistance Provider (CalTAP) funding fairs. The fairs provided information on free services and materials available to the water systems and included two water symposiums that focused on treatment certification and distribution. The CalTAP fairs averaged 101 attendees and the symposia averaged 41 attendees. In addition to the funding fairs, RCAC held 43 onsite and 61 online workshops. Board members, water system staff, and operators from more than 1793 individual water systems participated in the training events. RCAC utilized feedback from training and workshop attendees to improve its organizations' effectiveness in communicating with the public and ability to provide helpful information.

The remaining expenditures of Local Assistance set-aside in SFY 2018-19 were for technical and administrative staff within DFA and DDW and their efforts to provide assistance to PWSs in support of the State Water Board's TMF Capacity Development Strategy. DFA staff oversaw and engaged third-party technical assistance contractors on the activities described above, as well as assisted funding applicants in achieving the TMF capacity necessary to be eligible for DWSRF funding; advised and reviewed proposed water system consolidations and interties; assisted and mediated in legal entity formation and water system ownership issues; and reviewed water rate studies. The Local Assistance set-aside also supported DDW's implementation of the Capacity Development Strategy by funding staff costs associated with SWS TMF assistance performed during their permitting, inspections, compliance and monitoring (PICM) activities.

The budgeting and expenditures of the DWSRF Local Assistance set-aside, as of June 30, 2019, are shown in Exhibit E (page 47).

#### **D. State Program Management Set-Aside**

The State Water Board budgeted ten percent (10%) of the FFY 2018 Capitalization Grant, along with prior year Capitalization Grants, for the State Program Management set-aside in SFY 2018-19. This set-aside funded a portion of DDW's PWSS regulatory program. In SFY 2018-19, the State Program Management set-aside subsidized a pro-rated portion of DDW's PICM activities as well as the general administration activities of DDW with the PWSS grant and California's safe drinking water cost-recovery account.

In general, DDW staff conducted inspections and surveys of both large and SWSs; evaluated treatment and infrastructure improvement needs; reviewed plans and specifications in relation to, and for conformance with, treatment requirements; and assisted PWSs with state and federal drinking water compliance issues. The State Program Management set-aside funds were used to enhance emergency preparedness and terrorism/disaster response preparedness of the PWSS program as well as California's PWSs. The DWSRF program also utilized this set-aside to enhance and manage its data reporting mechanisms, including the Safe Drinking Water Information System. The TMF capacity development activities inherent within the PICM activities of DDW were partially funded by the set-aside as well.

The budgeting and expenditures of the State Program Management set-aside as of June 30, 2019, are shown in Exhibit E (page 47).

## VI. ACRONYMS

AIS	American Iron and Steel
ARRA	American Recovery and Reinvestment Act of 2009
ASAP	Automated Standard Application of Payments
AWWA	American Water Works Association
CalTap	California Technical Assistance Provider
CFCC	California Financing Coordinating Committee
CRWA	California Rural Water Association
CWSRF	Clean Water State Revolving Fund
CWSRF SCG	Clean Water State Revolving Fund Small Community Grant
DAC	Disadvantaged Community
DACs	Disadvantaged Communities
DAS	Division of Administrative Services
DBE	Disadvantaged Business Enterprise
DDW	Division of Drinking Water
DFA	Division of Financial Assistance
DIT	Division of Information Technology
DWSRF	Drinking Water State Revolving Fund
ETF	Extended Term Financing
ESCWSs	Expanded Small Community Water Systems
FFATA	Federal Funding Accountability and Transparency Act
FFY	Federal Fiscal Year
FI\$Cal	Financial Information System for California
FSRS	Federal Funding Accountability and Transparency Act Subaward Reporting System
IUP	Intended Use Plan
LEFA	Legal Entity Formation Assistance
LGTS	Loans and Grants Tracking System
MCL	Maximum Contaminant Levels
MBE	Minority Owned Business Enterprise
OMB	Office of Management and Budget
OSWS	Office of Sustainable Water Solutions
PICM	Permitting, Inspection, Compliance, Monitoring
PWS	Public Water System
PWSs	Public Water Systems
PWSS	Public Water System Supervision
RCAC	Rural Community Assistance Corporation
SADWF	Safe and Affordable Drinking Water Fund
SCG-DW	Small Community Grant Drinking Water

SCO	State Controller's Office
SDAC	Severely Disadvantaged Community
SDACs	Severely Disadvantaged Communities
SDWA	Safe Drinking Water Act
SERP	State Environmental Review Process
SFY	State Fiscal Year
SHE	Self-Help Enterprises
SWP	Source Water Protection
SWS	Small Water System
SWSs	Small Water Systems
SWSTA	Small Water System Technical Assistance
TMF	Technical, Managerial, Financial
ULO	Unliquidated Obligation
USEPA	United States Environmental Protection Agency
WBE	Women Owned Business Enterprise

## VII. EXHIBITS

Exhibit A	SFY 2018-19 Small Water Systems Funding
Exhibit B	SFY 2018-19 Extended Term Financing Projects
Exhibit C	SFY 2018-19 Small Community Grant Drinking Water Projects
Exhibit D	SFY 2018-19 Non-Funded Projects
Exhibit E	Cumulative DWSRF Set-Aside Expenditures
Exhibit F	SFY 2018-19 Green Project Reserve Projects and Additional Subsidy Projects (Principal Forgiveness)
Exhibit G	SFY 2018-19 Projects Funded by Public Health Needs Category
Exhibit H	Disadvantaged Business Enterprise Report
Exhibit I	SFY 2018-19 DWSRF FFATA Projects
Exhibit J	DWSRF Revenue Bond Funded Projects

## EXHIBIT A: SFY 2018-19 DWSRF Small Water Systems Funding

Funding Recipient	Project Number	Principal Forgiveness	Loan	Total SRF Funding	FA Execution Date	Financial Status
Ballico Community Service District	2400167-001P	\$455,000.00	\$0.00	\$455,000.00	6/7/2019	Severely Disadvantaged
Cobb Area County Water District	1710012-001P	\$2,550,000.00	\$0.00	\$2,550,000.00	6/21/2019	Disadvantaged
Fresno, County of	1000359-005C	\$2,026,165.00	\$0.00	\$2,026,165.00	7/3/2018	Severely Disadvantaged
Kings Canyon Unified School District	1000316-001P	\$498,000.00	\$0.00	\$498,000.00	7/17/2018	Severely Disadvantaged
Livingston, City of	2410004-003C	\$0.00	\$4,000,000.00	\$4,000,000.00	10/25/2018	Not Disadvantaged
Loma Rica Water Company	5800803-001C	\$0.00	\$151,928.00	\$151,928.00	7/17/2018	Not Disadvantaged
Mettler Valley Mutual Water Company	1900100-003P	\$825.00	\$0.00	\$825.00	8/15/2018	Disadvantaged
Mojave Public Utility District	1510014-003C	\$2,215,930.00	\$0.00	\$2,215,930.00	5/23/2019	Severely Disadvantaged
Mountain Gate Community Services District	4510002-006P	\$500,000.00	\$0.00	\$500,000.00	6/28/2019	Disadvantaged
<b>Total</b>		<b>\$8,245,920.00</b>	<b>\$4,151,928.00</b>	<b>\$12,397,848.00</b>		

**EXHIBIT B: SFY 2018-19 Extended Term Financing Projects**

<b>Funding Recipient</b>	<b>Project Number</b>	<b>Total SRF Funding</b>	<b>FA Execution Date</b>	<b>Loan Term</b>
City of Livingston	2410004-003C	\$4,000,000.00	10/25/2018	30
City of Los Angeles Acting by and through the Department of Water & Power	1910067-054C	\$9,128,390.00	7/31/2018	30
City of Los Angeles Acting by and through the Department of Water & Power	1910067-048C	\$158,190,000.00	10/1/2018	30
City of Los Angeles Acting by and through the Department of Water & Power	1910067-035C	\$10,823,918.00	10/1/2018	30
City of Los Angeles Acting by and through the Department of Water & Power	1910067-011C	\$26,492,963.00	10/2/2018	30

## EXHIBIT C: SFY 2018-19 Small Community Grant Drinking Water Projects

Funding Recipient	Project Number	Grant	Loan	Total Funding	FA Execution Date
Donner Summit Public Utility District	3100034-003P	\$220,000.00	\$0.00	\$220,000.00	5/1/19
Fresno, County of	1000359-005C	\$6,000,000.00	\$0.00	\$8,026,165.00	7/3/18
Indio Water Authority	3310020-001C	\$5,525,025.00	\$0.00	\$5,525,025.00	2/20/19
Mettler Valley Mutual Water Company	1900100-003P	\$494,175.00	\$0.00	\$495,000.00	8/15/18
Orleans Mutual Water Company	1200566-001P	\$180,000.00	\$0.00	\$180,000.00	8/22/18
Sierra East Homeowners' Association, Inc.	2600622-001C	\$1,030,350.00	\$0.00	\$1,030,350.00	10/9/18
Tulare, County of	5400550-001C	\$4,028,896.00	\$0.00	\$4,028,896.00	11/28/18
Water Replenishment District of Southern California	0019001-001C	\$1,485,750.00	\$0.00	\$2,485,750.00	8/15/18
Winship-Robbins Elementary School District	5100145-001C	\$350,000.00	\$0.00	\$350,000.00	8/3/18
<b>Total</b>		<b>\$19,314,196.00</b>	<b>\$0.00</b>	<b>\$22,341,186.00</b>	

## EXHIBIT D: SFY 2018-19 Non-Funded Projects

### Small Water Systems: Population <= 10,000 (Planning)

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment/ Reason why not funded in SFY 2018-19
1/8/2018	Big Sandy Rancheria of Western Mono Indians of California	C	0600121-001P	Planning	Fresno	\$120,000	Pending	Big Sandy Rancheria Water System Capital Improvement	235	55	incomplete application
9/25/2017	Burney Water District	F	4510003-001P	Planning	Lassen	\$500,000	Severely Disadvantaged	Burney Water District Well 9 Planning Project	3000	1377	pending funding agreement
9/25/2017	Burney Water District	F	4510003-002P	Planning	Lassen	\$500,000	Severely Disadvantaged	Burney Water District Water Storage Planning Project	3000	1377	pending funding agreement
1/19/2017	Cabazon Water District	F	3310047-002P	Planning	Riverside	\$187,000	Disadvantaged	Pipeline Project	2535	961	to be funded in FY19-20
1/19/2017	Cabazon Water District	F	3310047-001P	Planning	Riverside	\$416,000	Disadvantaged	Well Improvements Project	2535	961	pending funding agreement
10/11/2016	Cascade Mutual Water Company	C	2000509-006P	Planning	Merced	\$300,000	Disadvantaged	Well Replacement Planning Project	300	137	incomplete application
5/30/2018	Cedar Valley Mutual Water Company	C	2000538-001P	Planning	Merced	\$100,000	Severely Disadvantaged	Arsenic MCL Compliance	137	67	pending funding agreement
Not Submitted	Enos Lane Public Utility District	C	1500544-004P	Planning	Visalia	\$495,150	Not Disadvantaged	Nitrate and Arsenic Mitigation Project-Enos Lane PUD	250	83	applicant unresponsive

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment/ Reason why not funded in SFY 2018-19
10/20/2017	Etna, City of	B	4710004-001P	Planning	Klamath	\$500,000	Severely Disadvantaged	City of Etna Surface Water Treatment Compliance Planning	769	383	incomplete application
4/5/2017	Frazier Park Public Utility District	A	1510007-001P	Planning	Tehachapi	\$1,210,550	Severely Disadvantaged	Frazier Park/Lake of the Woods Regional Consolidation Planning Project	2348	1362	funding agreement executed 8.1.19
5/26/2017	Lower Lake County Water District	C	1710010-001P	Planning	Mendocino	\$500,000	Severely Disadvantaged	Lower Lake CWD - Source Capacity & Treatment Plant	1902	851	pending funding agreement
8/22/2017	Madera, County of (MD10A - Madera Ranchos)	F	2010008-004P	Planning	Merced	\$355,000	Not Disadvantaged	Madera Ranchos Pipe Replacement & Metering Planning Project	2255	922	funding agreement executed 7.26.19
2/25/2016	Pike Ranch Mutual Water Company	C	2000526-001P	Planning	Merced	\$110,000	Disadvantaged	Pike Ranch Mutual Water Company Uranium/Coliform MCL	75	23	withdrawn
Not Submitted	Reeds Creek Elementary School District	C	5200540-001P	Planning	Valley	\$67,200	Severely Disadvantaged	Reeds Creek School CA5200540 Hexavalent Chromium Compliance Planning	180	3	on hold until hexavalent chromium MCL is reinstated
10/20/2017	Shady Oaks Mobile Home Park	C	2000828-002P	Planning	Merced	\$390,000	Disadvantaged	Shady Oak Water Project	40	21	funding agreement executed 7.23.19

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment/ Reason why not funded in SFY 2018-19
4/19/2016	Sierraville Public Utility District	D	4600018-001P	Planning	Lassen	\$320,100	Severely Disadvantaged	New Water Source	200	102	Project is no longer needed
8/23/2016	Sky View County Water District	C	5200562-001P	Planning	Valley	\$500,000	Severely Disadvantaged	Reliable Source Project	120	98	pending funding agreement
4/22/2015	Trinity, County of (Waterworks District 1)	B	5310002-002P	Planning	Klamath	\$270,000	Severely Disadvantaged	Water Treatment Plant Modification	1500	540	pending funding agreement
5/30/2018	Yosemite Forks Estates Mutual Water Company	C	2000527-001P	Planning	Merced	\$135,000	Severely Disadvantaged	Arsenic MCL Compliance	110	99	pending funding agreement

**Small Water Systems: Population <= 10,000 (Construction)**

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment Explanation why it was not funded in SFY 2018-19
11/20/2017	Caliente Union School District	C	1502607-001C	Construction	Tehachapi	\$965,912	Pending	Piute Mountain Elementary School Fluoride Remediation Project	200	5	pending funding agreement
Not Submitted	California Water Service Company	C	1510033-001C	Construction	Tehachapi	\$1,000,000	Disadvantaged	Secondary Treatment at Kernville Surface Water Plant	5435	1914	applicant unresponsive
Not Submitted	Clearlake Oaks County Water District	F	1710001-003C	Construction	Mendocino	\$1,625,000	Severely Disadvantaged	Harvey Area Storage Tank, Booster Pump	2458	1667	project is inactive until planning

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment Explanation why it was not funded in SFY 2018-19
								Station, Pipelines and Access Road Infrastructure Project			project is complete
1/28/2017	Clearlake Oaks County Water District	F	1710001-004C	Construction	Mendocino	\$4,582,206	Severely Disadvantaged	Water Distribution System, Storage, and Booster Pump Station Infrastructure Project	2458	1667	project is inactive until planning project is complete
3/29/2017	Coachella Valley Unified School District	C	3301153-001C	Construction	Riverside	\$800,000	Severely Disadvantaged	Consolidation/extension of service to Westside school-Coachella Valley USD	975	1	pending funding agreement
5/22/2017	Colusa, City of	C	0610002-001C	Construction	Valley	\$2,022,580	Severely Disadvantaged	Walnut Ranch Construction Project	5625	2126	project number changed to 0610002-002C, incomplete application
12/20/2016	Davenport County Sanitation District	D	4400571-005C	Construction	Monterey	\$240,066	Disadvantaged	Old Coast Water Line Extension	350	130	receiving TA for CEQA
6/29/2016	Del Oro Water Company	A	5400665-003C	Construction	Visalia	\$5,189,176	Pending	River Island Water Treatment Plant	810	362	pending funding agreement
2/14/2017	Emerald Valley Estates Mutual Water Company	A	4301004-002C	Construction	Santa Clara	\$178,025	Not Disadvantaged	Test Well Integration	35	13	no longer need construction funding
3/17/2016	Feather Falls Union Elementary School District	A	0400107-001C	Construction	Valley	\$325,000	Severely Disadvantaged	Feather Falls School Emergency Well	50	2	School is closing June 2019

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment Explanation why it was not funded in SFY 2018-19
								Replacement #0400107			
2/8/2017	Floriston Property Owners Association, Inc.	A	2900502-002C	Construction	Valley	\$572,715	Disadvantaged	Spring Filtration Project	100	40	incomplete application
12/1/2016	Greenfield County Water District	C	1510024-001C	Construction	Visalia	\$5,000,000	Not Disadvantaged	Arsenic Mitigation Project	6500	2522	withdrawn
6/16/2016	Holtville, City of	C	1310005-006C	Construction	San Diego	\$1,778,600	Severely Disadvantaged	Holtville Water Tank & System Improvements	6032	1473	pending funding agreement
Not Submitted	Hughson, City of	C	5010008-012C	Construction	Stockton	\$4,116,274	Severely Disadvantaged	Cobles Corner / County Villa Consolidation with City of Hughson	6082	1779	project on hold until completion of other project
9/13/2017	Keyes Community Services District	A	5010009-005C	Construction	Stockton	\$10,410,000	Disadvantaged	1,2,3-TCP Removal Treatment System	4575	1450	incomplete application
8/23/2016	Lake Morena's Oak Shores Mutual Water Company, Inc.	F	3700923-002C	Construction	San Diego	\$756,500	Severely Disadvantaged	Eastside Pipeline Looping and Pipeline Abandonment Improvements	710	191	pending funding agreement
12./3/2016	Locke Water Works Company	C	3400138-001C	Construction	Sacramento	\$1,000,000	Severely Disadvantaged	Locke Water System Intertie w/ SCWA	65	55	project status is inactive until previous project ends
4/3/2016	London Community Services District	C	5410017-003C	Construction	Visalia	\$4,944,655	Severely Disadvantaged	Water System Reliability Project	1638	432	pending funding agreement

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment Explanation why it was not funded in SFY 2018-19
10/23/2015	Lost Hills Utility District	F	1510046-008C	Construction	Visalia	\$1,732,039	Severely Disadvantaged	Well Number Three	2772	373	applicant unresponsive
3/1/2016	Madera, County of	C	2000737-002C	Construction	Merced	\$2,138,584	Not Disadvantaged	Maintenance District 42 Pipeline Construction and Consolidation	100	34	requested grants but only qualify for loans
N/A	North Edwards WD	C	1510052-003C	Construction	Tehachapi	\$4,000,000	Disadvantaged	Arsenic Treatment - includes pipelines to Fountain Trailer Park and Sunset Apartments and a 12? pipeline to connect the treatment plant.	887	282	Funded by P84 Chemical Funding Program
12/27/2017	R.S. Mutual Water Company	C	1500458-002C	Construction	Tehachapi	\$538,000	Severely Disadvantaged	R.S. Mutual Water Company consolidation project	25	25	Funded by P84 Chemical Funding Program
7/12/2017	Rand Communities Water District	C	1510016-005C	Construction	Tehachapi	\$3,218,000	Severely Disadvantaged	Arsenic Remediation New Well	344	295	pending funding agreement
4/6/2016	Reef-Sunset Unified School District	C	1600048-001C	Construction	Visalia	\$315,000	Disadvantaged	Water and Irrigation System Modification Project	350	12	Funded by P84 Chemical Funding Program
7/7/2016	Trinity Knolls Mutual Water Company	C	5301102-004C	Construction	Klamath	\$3,492,340	Not Disadvantaged	Source Capacity Improvement and Distribution Rehabilitation Project	36	60	incomplete application

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment Explanation why it was not funded in SFY 2018-19
8/17/2016	Westley Community Services District	D	5000408-001C	Construction	Stockton	\$456,500	Severely Disadvantaged	Westley Community Services District Metering Project	70	35	pending funding agreement
1/9/2018	Yosemite Unified School District	C	2000567-002C	Construction	Merced	\$1,230,000	Severely Disadvantaged	Yosemite Unified School District Water System Upgrade Project	1200	1	pending funding agreement

**Large Water Systems: Population > 10,000 (Planning)**

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment Explanation why it was not funded in SFY 2018-19
10/26/2015	Twentynine Palms Water District	F	3610049-005P	Planning	San Bernardino	\$1,800,000	Disadvantaged	Potable Groundwater Management Project	17500	7704	withdrawn

### Large Water Systems: Population > 10,000 (Construction)

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment Explanation why it was not funded in SFY 2018-19
9/9/2015	Apple Valley Ranchos Water Company	C	3610003-001C	Construction	San Bernardino	\$5,884,193	Severely Disadvantaged	Consolidation and Rehabilitation of Yermo Water System	52879	18744	pending funding agreement
7/29/2016	Arvin Community Services District	A	1510001-002C	Construction	Visalia	\$559,330	Severely Disadvantaged	ACSD/Son Shine Properties Water System Consolidation Project	11847	3446	incomplete application
10/24/2017	Arvin Community Services District	C	1510001-005C	Construction	Visalia	\$3,150,350	Severely Disadvantaged	123 TCP Treatment for Well No.8 and Well No. 13	11847	3446	incomplete application
4/12/2017	Coachella Valley Water District	C	3310001-009C	Construction	Riverside	\$974,160	Severely Disadvantaged	Thermal Mutual Water Company Consolidation Project	244472	97789	pending funding agreement
8/23/2017	Coachella Valley Water District	C	3310001-011C	Construction	Riverside	\$1,151,000	Severely Disadvantaged	Consolidation of Oasis Gardens WC	244472	97789	project is being combined with project 3310001-009C
1/18/2017	Fresno, City of	F	1010007-032C	Construction	Fresno	\$14,000,000	Disadvantaged	Fresno NE Surface Water Treatment Facility 6MG Finished Water Reservoir	457511	130176	pending funding agreement
8/24/2017	Hemet, City of	F	3310016-009C	Construction	Riverside	\$16,992,000	Severely Disadvantaged	Water Distribution System Improvements	20047	8667	incomplete application
3/5/2016	Los Angeles County	C	1910204-003C	Construction	Central	\$3,306,320	Not Disadvantaged	Owen Tank Replacement	27807	7733	incomplete application

General Package Received	Applicant	Category	Project Number	Funding Type	District	Estimated Project Cost	Disadvantaged Status	Description	Population	Service Connections	Comment Explanation why it was not funded in SFY 2018-19
	Waterworks District 29										
10/5/2017	Rosamond Community Services District	C	1510018-016C	Construction	Tehachapi	\$8,500,000	Disadvantaged	RCSD Arsenic Regional Consolidation Project	10633	4398	pending funding agreement

## EXHIBIT E: Cumulative DWSRF Set-Aside Expenditures

### DWSRF Administrative Set-Aside

FFY	Final Cap Grant Amount (incl. In-Kind)	Budget Amount	In-Kind Amount	Expenditure Amount	Balance
1997	\$75,565,707	\$3,027,304	\$0	\$3,027,304	\$0
1998	\$77,108,200	\$3,084,328	\$0	\$3,084,328	\$0
1999	\$80,816,700	\$3,232,668	\$0	\$3,232,668	\$0
2000	\$83,993,100	\$0	\$0	\$0	\$0
2001	\$84,340,000	\$3,373,600	\$0	\$3,373,600	\$0
2002	\$82,460,900	\$3,298,436	\$68,553	\$3,229,883	\$0
2003	\$81,966,200	\$3,278,648	\$0	\$3,278,648	\$0
2004	\$85,027,600	\$6,679,752	\$70,000	\$6,609,752	\$0
2005	\$84,847,500	\$2,781,076	\$0	\$2,781,076	\$0
2006	\$67,153,678	\$2,684,166	\$30,000	\$2,654,166	\$0
2007	\$67,105,000	\$2,684,200	\$0	\$2,684,200	\$0
ARRA 2009	\$159,008,000	\$5,364,472	\$0	\$5,364,472	\$0
2008	\$66,424,000	\$2,656,960	\$0	\$2,656,960	\$0
2009	\$66,424,000	\$2,656,960	\$0	\$2,656,960	\$0
2010	\$126,958,000	\$5,078,320	\$0	\$5,078,320	\$0
2011	\$86,698,000	\$3,467,920	\$0	\$3,467,920	\$0
2012	\$85,358,000	\$3,414,320	\$300,000	\$3,114,320	\$0
2013	\$78,770,000	\$3,150,800	\$426,867	\$2,723,933	\$0
2014	\$83,221,000	\$3,328,840	\$0	\$3,328,840	\$0
2015	\$82,674,000	\$3,306,960	\$395,000	\$2,911,960	\$0
2016	\$78,215,000	\$3,128,600	\$75,000	\$3,053,600	\$0
2017	\$77,545,000	\$3,101,800	\$0	\$3,101,800	\$1,041,528

<b>FFY</b>	<b>Final Cap Grant Amount (incl. In-Kind)</b>	<b>Budget Amount</b>	<b>In-Kind Amount</b>	<b>Expenditure Amount</b>	<b>Balance</b>
2018	\$97,991,000	\$3,919,640	\$0	\$3,919,640	\$3,818,300
<b>Total</b>	<b>\$1,959,670,585</b>	<b>\$76,699,770</b>	<b>\$1,365,420</b>	<b>\$72,232,550</b>	<b>\$4,859,828</b>

### **Small Water Technical Assistance Set-Aside**

<b>FFY</b>	<b>Final Cap Grant Amount (incl. In-Kind)</b>	<b>Budget Amount</b>	<b>In-Kind Amount</b>	<b>Expenditure Amount</b>	<b>Balance</b>
1997	\$75,565,707	\$68,245	\$0	\$68,245	\$0
1998	\$77,108,200	\$1,542,164	\$0	\$1,542,164	\$0
1999	\$80,816,700	\$1,616,334	\$0	\$1,616,334	\$0
2000	\$83,993,100	\$0	\$0	\$0	\$0
2001	\$84,340,000	\$1,686,800	\$0	\$1,686,800	\$0
2002	\$82,460,900	\$1,649,218	\$0	\$1,649,218	\$0
2003	\$81,966,200	\$1,639,324	\$0	\$1,639,324	\$0
2004	\$85,027,600	\$3,339,876	\$0	\$3,339,876	\$0
2005	\$84,847,500	\$1,390,538	\$0	\$1,390,538	\$0
2006	\$67,153,678	\$1,342,083	\$0	\$1,342,083	\$0
2007	\$67,105,000	\$1,342,100	\$0	\$1,342,100	\$0
ARRA 2009	\$159,008,000	\$2,787,147	\$0	\$2,787,147	\$0
2008	\$66,424,000	\$1,328,480	\$0	\$1,328,480	\$0
2009	\$66,424,000	\$1,328,480	\$0	\$1,328,480	\$0
2010	\$126,958,000	\$2,539,160	\$0	\$2,539,160	\$0
2011	\$86,698,000	\$1,733,960	\$0	\$1,733,960	\$0
2012	\$85,358,000	\$1,707,160	\$0	\$1,707,160	\$0
2013	\$78,770,000	\$1,575,400	\$0	\$1,575,400	\$0

<b>FFY</b>	<b>Final Cap Grant Amount (incl. In-Kind)</b>	<b>Budget Amount</b>	<b>In-Kind Amount</b>	<b>Expenditure Amount</b>	<b>Balance</b>
2014	\$83,221,000	\$1,664,420	\$0	\$1,664,420	\$0
2015	\$82,674,000	\$1,653,480	\$0	\$1,653,480	\$0
2016	\$78,215,000	\$1,564,300	\$0	\$1,564,300	\$0
2017	\$77,545,000	\$1,550,900	\$0	\$494,414	\$1,056,485
2018	\$97,991,000	\$1,959,820	\$0	\$0	\$1,959,820
<b>Total</b>	<b>\$1,959,670,585</b>	<b>\$37,009,389</b>	<b>\$0</b>	<b>\$33,993,083</b>	<b>\$3,016,305</b>

### State Program Management Set-Aside

<b>FFY</b>	<b>Final Cap Grant Amount (in-kind included)</b>	<b>Budget Amount</b>	<b>In-Kind Amount</b>	<b>Expenditure Amount</b>	<b>Balance</b>
1997	\$75,565,707	\$4,157	\$0	\$4,157	\$0
1998	\$77,108,200	\$308,433	\$0	\$308,433	\$0
1999	\$80,816,700	\$323,267	\$0	\$323,267	\$0
2000	\$83,993,100	\$0	\$0	\$0	\$0
2001	\$84,340,000	\$2,000,000	\$0	\$2,000,000	\$0
2002	\$82,460,900	\$2,000,000	\$0	\$2,000,000	\$0
2003	\$81,966,200	\$2,000,000	\$0	\$2,000,000	\$0
2004	\$85,027,600	\$2,400,000	\$0	\$2,400,000	\$0
2005	\$84,847,500	\$4,077,000	\$0	\$4,077,000	\$0
2006	\$67,153,678	\$4,704,000	\$0	\$4,704,000	\$0
2007	\$67,105,000	\$4,934,400	\$0	\$4,934,400	\$0
ARRA 2009	\$159,008,000	\$0	\$0	\$0	\$0
2008	\$66,424,000	\$4,882,164	\$0	\$4,882,164	\$0

<b>FFY</b>	<b>Final Cap Grant Amount (incl. In-Kind)</b>	<b>Budget Amount</b>	<b>In-Kind Amount</b>	<b>Expenditure Amount</b>	<b>Balance</b>
2009	\$66,424,000	\$4,882,164	\$0	\$4,882,164	\$0
2010	\$126,958,000	\$9,318,717	\$0	\$9,318,717	\$0
2011	\$86,698,000	\$8,669,800	\$0	\$8,669,800	\$0
2012	\$85,358,000	\$8,535,800	\$0	\$8,535,800	\$0
2013	\$78,770,000	\$7,089,300	\$0	\$7,089,300	\$0
2014	\$83,221,000	\$8,322,100	\$300,000	\$8,022,100	\$0
2015	\$82,674,000	\$8,267,400	\$0	\$8,267,400	\$0
2016	\$78,215,000	\$7,821,500	\$0	\$7,821,500	\$0
2017	\$77,545,000	\$7,754,500	\$0	\$7,754,500	\$0
2018	97,991,000	\$9,799,100	\$0	\$1,485,880	\$8,313,219
<b>Total</b>	<b>\$1,959,670,585</b>	<b>\$108,093,802</b>	<b>\$300,00</b>	<b>\$91,726,082</b>	<b>\$8,313,219</b>

### Local Assistance Set-Aside

<b>FFY</b>	<b>Final Cap Grant Amount (in-kind included)</b>	<b>Budget Amount</b>	<b>In-Kind Amount</b>	<b>Expenditure Amount</b>	<b>Balance</b>
1997	\$75,565,707	\$6,831,577	\$0	\$6,831,577	\$0
1998	\$77,108,200	\$0	\$0	\$0	\$0
1999	\$80,816,700	\$0	\$0	\$0	\$0
2000	\$83,993,100	\$2,000,000	\$0	\$2,000,000	\$0
2001	\$84,340,000	\$0	\$0	\$0	\$0
2002	\$82,460,900	\$0	\$0	\$0	\$0
2003	\$81,966,200	\$0	\$0	\$0	\$0
2004	\$85,027,600	\$0	\$0	\$0	\$0
2005	\$84,847,500	\$0	\$0	\$0	\$0

<b>FFY</b>	<b>Final Cap Grant Amount (incl. In-Kind)</b>	<b>Budget Amount</b>	<b>In-Kind Amount</b>	<b>Expenditure Amount</b>	<b>Balance</b>
2006	\$67,153,678	\$0	\$0	\$0	\$0
2007	\$67,105,000	\$0	\$0	\$0	\$0
ARRA 2009	\$159,008,000	\$0	\$0	\$0	\$0
2008	\$66,424,000	\$0	\$0	\$0	\$0
2009	\$66,424,000	\$0	\$0	\$0	\$0
2010	\$126,958,000	\$0	\$0	\$0	\$0
2011	\$86,698,000	\$2,600,940	\$0	\$2,600,940	\$0
2012	\$85,358,000	\$4,267,900	\$0	\$4,267,900	\$0
2013	\$78,770,000	\$2,507,007	\$0	\$2,507,007	\$0
2014	\$83,221,000	\$4,993,260	\$0	\$4,993,260	\$0
2015	\$82,674,000	\$8,267,400	\$0	\$8,267,400	\$0
2016	\$78,215,000	\$7,821,500	\$0	\$7,821,500	\$26,835
2017	\$77,545,000	\$5,428,150	\$0	\$4,041,613	\$1,386,537
2018	\$97,991,000	\$9,799,100	\$0	\$0	\$9,799,100
<b>Total</b>	<b>\$1,959,670,585</b>	<b>\$54,516,834</b>	<b>\$0</b>	<b>\$43,331,197</b>	<b>\$11,212,472</b>

**EXHIBIT F: SFY 2018-19 Green Project Reserve Projects and Additional Subsidy Projects  
(Principal Forgiveness)**

<b>Funding Recipient</b>	<b>Project Number</b>	<b>Additional Subsidy (Principal Forgiveness)<sup>1</sup></b>	<b>Loan</b>	<b>GPR Funding Amount</b>	<b>Total SRF Funding</b>	<b>FA Execution Date</b>	<b>Status</b>
Arvin Community Services District	1510001-003C	\$5,000,000.00	\$9,348,616.00	\$0.00	\$9,348,616.00	4/12/2019	Severely Disadvantaged
Ballico Community Service District	2400167-001P	\$455,000.00	\$0.00	\$0.00	\$455,000.00	6/7/2019	Severely Disadvantaged
Cobb Area County Water District	1710012-001P	\$2,550,000.00	\$0.00	\$0.00	\$2,550,000.00	6/21/2019	Disadvantaged
Fresno, County of	1000359-005C	\$2,026,165.00	\$0.00	\$0.00	\$2,026,165.00	7/3/2018	Severely Disadvantaged
Kings Canyon Unified School District	1000316-001P	\$498,000.00	\$0.00	\$0.00	\$498,000.00	7/17/2018	Severely Disadvantaged
Mettler Valley Mutual	1900100-003P	\$825.00	\$0.00	\$0.00	\$825.00	8/15/2018	Disadvantaged

<sup>1</sup> Small DACs may receive additional subsidy (principal forgiveness) for their eligible projects per the IUP.

<b>Funding Recipient</b>	<b>Project Number</b>	<b>Additional Subsidy (Principal Forgiveness)<sup>1</sup></b>	<b>Loan</b>	<b>GPR Funding Amount</b>	<b>Total SRF Funding</b>	<b>FA Execution Date</b>	<b>Status</b>
Water Company							
Mojave Public Utility District	1510014-003C	\$2,215,930.00	\$0.00	\$0.00	\$2,215,930.00	5/23/2019	Severely Disadvantaged
Mountain Gate Community Services District	4510002-006P	\$500,000.00	\$0.00	\$0.00	\$500,000.00	6/28/2019	Disadvantaged
	<b>Total:</b>	<b>\$13,245,920.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$17,594,536.00</b>		

**EXHIBIT G: SFY 2018-19 Projects Funded by Public Health Needs Category**

<b>Funding Recipient</b>	<b>Project Name</b>	<b>Category</b>	<b>Population</b>	<b>Connections</b>	<b>Initial Funding Date</b>	<b>Principal Forgiveness Amount</b>	<b>Loan Amount</b>	<b>Total Amount Financed</b>	<b>Status</b>
Mettler Valley Mutual Water Company	Arsenic Exceedance-Remediation	A	135	98	8/15/2018	\$825	\$0	\$825	Small Disadvantaged
City of Los Angeles Acting by and through the Department of Water & Power	Silver Lake Reservoir Complex Storage Replacement Project (Headworks West)	B	3,987,622	732,224	10/1/2018	\$0	\$158,190,000	\$158,190,000	Not Disadvantaged
Arvin Community Services District	Arsenic Mitigation Project - Phase II	C	20,850	3,885	4/12/2019	\$5,000,000	\$9,348,616	\$14,348,616	Large Severely Disadvantaged
Ballico Community Service District	Secondary Well Construction	C	360	72	6/7/2019	\$455,000	\$0	\$455,000	Small Severely Disadvantaged
Cobb Area County Water District	Multi-System Consolidation Project	C	1,769	708	6/21/2019	\$2,550,000	\$0	\$2,550,000	Small Disadvantaged
County of Fresno	Westside Groundwater Project	C	704	244	7/3/2018	\$2,026,165	\$0	\$2,026,165	Small Severely Disadvantaged
Kings Canyon Unified	DBCP MCL Compliance	C	120	1	7/17/2018	\$498,000	\$0	\$498,000	Small Severely Disadvantaged

Funding Recipient	Project Name	Category	Population	Connections	Initial Funding Date	Principal Forgiveness Amount	Loan Amount	Total Amount Financed	Status
School District									
City of Livingston	Livingston WS Improvements Project	C	13,753	2,827	10/25/2018	\$0	\$4,000,000	\$4,000,000	Not Disadvantaged
Loma Rica Water Company	Reservoir Replacement Project	C	200	70	7/17/2018	\$0	\$151,928.00	\$151,928	Not Disadvantaged
City of Los Angeles Acting by and through the Department of Water & Power	99th Street Wells Ammoniation Station Project	C	484,52	732,224	10/1/2018	\$0	\$10,823,918	\$10,823,918	Not Disadvantaged
City of Los Angeles Acting by and through the Department of Water & Power	Upper Stone Canyon Reservoir Water Quality Improvement Project	D	3,987,224	3,987,622	10/2/2018	\$0	\$26,492,963	\$26,492,963	Not Disadvantaged
Mojave Public Utility District	Emergency Roof Repair at the Two 1.5 Million Gallon Navy Tanks	D	4,200	1,309	5/23/2019	\$2,215,930	\$0	\$2,215,930	Small Severely Disadvantaged

<b>Funding Recipient</b>	<b>Project Name</b>	<b>Category</b>	<b>Population</b>	<b>Connections</b>	<b>Initial Funding Date</b>	<b>Principal Forgiveness Amount</b>	<b>Loan Amount</b>	<b>Total Amount Financed</b>	<b>Status</b>
City of Huntington Park	Miles Avenue Water Quality Improvement Project	E	17,272	5,532	2/21/2019	\$0	\$236,500	\$236,500	Large Severely Disadvantaged
Mountain Gate Community Services District	Water System Improvements Project	E	2,227	666	6/28/2019	\$500,000	\$0	\$500,000	Small Disadvantaged
City of Los Angeles Acting by and through the Department of Water & Power	Elysian Reservoir Water Quality Improvement Project	F	3,987,622	73,224	7/31/2018	\$0	\$9,128,390	\$9,128,390	Not Disadvantaged

## EXHIBIT H: Disadvantaged Business Enterprise Report

		<b>MBE</b>	<b>WBE</b>	<b>TOTAL</b>
<b>Annual Disbursements by Category</b>		\$8,816,303.00	\$2,654,719.00	\$11,471,022.00
<b>Total Disbursements</b>				\$228,754,234.00
<b>Percentage to Total Disbursements</b>		<b>3.80%</b>	<b>1.10%</b>	<b>4.90%</b>

Note: Percentage of DBE participation is determined by taking the funds disbursed to MBE and WBE compared to the total disbursements for the period October 1, 2017 through September 30, 2018. DBE reports are collected annually based on the FFY.

## EXHIBIT I: SFY 2018-19 DWSRF FFATA Projects

Funding Recipient	Project Number	Agreement Date	FFATA Reporting Due	Actual Date Reported	FFATA Reporting Amount
City of Los Angeles Acting by and through the Department of Water & Power	1910067-048C	10/1/2018	11/30/2018	2/14/2019	\$158,190,000
				<b>Total:</b>	<b>\$158,190,000</b>

Note: For FFY 2018 Capitalization Grant of \$97,991,000

## EXHIBIT J: DWSRF Revenue Bond Funded Projects

Project Number	Funding Recipient	DWSRF Funding Amount as of 6/30/2019 <sup>1</sup>	Project Description	Amount Disbursed from Series 2019 Bonds as of 6/30/2019 <sup>2</sup>	Anticipated Future Disbursements from Series 2019 Bonds	Construction Completion Date <sup>3</sup>
1010007-028C	City of Fresno	\$195,489,000	In order to decrease reliance on groundwater, address declining groundwater levels, and create a more sustainable water supply, the City is constructing the Southeast Surface Water Treatment Facility. The new facility is an 80 million gallon per day surface water treatment facility that includes conventional pre-treatment using plate settlers, intermediate ozone treatment, and filtration. In addition, the City is constructing two cast-in-place treated water reservoirs, a pump station, lagoons for handling residuals, an operations building, and a chemical building.	\$1,514,822.97	\$0.00	1/1/2019
1010007-030C	City of Fresno	\$75,900,000	The project includes approximately 13 miles of 16-inch to 66-inch diameter pipelines, designated as Regional Transmission Mains, to convey potable water from the new Southeast Surface Water	\$2,077,581.00	\$0.00	6/30/2020

<sup>1</sup> The DWSRF funding amount reflects amounts as of 6/30/2019, including any adjustments for funding increases as a result of contract amendments or funding decreases as a result of unliquidated/de-obligated balances.

<sup>2</sup> The Series 2019 revenue bonds were fully disbursed immediately following the receipt of such bond proceeds.

<sup>3</sup> Series 2019 revenue bonds were fully disbursed immediately following the receipt of such bond proceeds.

<b>Project Number</b>	<b>Funding Recipient</b>	<b>DWSRF Funding Amount as of 6/30/2019<sup>1</sup></b>	<b>Project Description</b>	<b>Amount Disbursed from Series 2019 Bonds as of 6/30/2019<sup>2</sup></b>	<b>Anticipated Future Disbursements from Series 2019 Bonds</b>	<b>Construction Completion Date<sup>3</sup></b>
			Treatment Facility to the City's transmission and distribution system.			
1010007-031C	City of Fresno	\$65,875,669	The City will construct a new check structure and diversion along the Fresno No. 3 Canal and a 13-mile 72-inch raw water pipeline to bring water to the Southeast Surface Water Treatment Facility.	\$2,241,340.00	\$0.00	9/1/2018
1910067-048C	Los Angeles, City of Acting by and through the Department of Water & Power	\$158,190,000	To comply with the Long Term 2 Enhanced Surface Water Treatment Rule, the City will remove the uncovered Silver Lake and Ivanhoe Reservoirs from service. The City will construct the new 54 million gallon, buried concrete Headworks West Reservoir to replace the lost capacity.	\$76,054,773.00	\$0.00	8/31/2021
1910067-049C	Los Angeles, City of Acting by and through the Department of Water & Power	\$102,797,875	The Department of Water and Power will construct a 650 million gallon per day ultraviolet disinfection facility to treat water from the Los Angeles Reservoir. This will allow the Department to comply with the Long Term 2 Enhanced Surface Water Treatment Rule, which requires public water systems to either cover or treat water stored in open reservoirs. The Department chose treatment due to the size of the Reservoir.	\$8,464,494.89	\$0.00	2/28/2020

<b>Project Number</b>	<b>Funding Recipient</b>	<b>DWSRF Funding Amount as of 6/30/2019<sup>1</sup></b>	<b>Project Description</b>	<b>Amount Disbursed from Series 2019 Bonds as of 6/30/2019<sup>2</sup></b>	<b>Anticipated Future Disbursements from Series 2019 Bonds</b>	<b>Construction Completion Date<sup>3</sup></b>
1910154-001C	City of South Pasadena	\$12,205,642	Given the age of the Graves Reservoir, the City will construct a new reservoir, pump station, related appurtenances, and a wellhead treatment system.	\$679,462.00	\$0.00	4/30/2020
3710020-074C	City of San Diego	\$15,000,044	This project will replace the Montezuma pump station. The new station will have six pumps with a total capacity of 18 MGD. The project also includes 7,000 feet of new, larger pipeline to replace an existing pipelines to reduce head loss, increase transmission capacity, and meet pressure criteria.	\$4,755,588.88	\$0.00	5/1/2020
3410020-034C	City of Sacramento	\$173,141,875	The City will receive financing to install approximately 36,000 of its approximately 40,000 water meters on existing residential and commercial water service connections. Other funding sources will be used for the remaining 4,000 meters.	\$4,211,937.26	\$0.00	1/1/2021
			<b>Total</b>	<b>\$100,000,000.00</b>	<b>\$0.00</b>	

## VIII. APPENDICES

Appendix A	Short-Term Goals
Appendix B	Long-Term Goals
Appendix C	Operating Agreement and Capitalization Grant Conditions
Appendix D	Performance Evaluation Report
Appendix E	Audited Financial Statements

## APPENDIX A: Short-Term Goals

This section describes the State Water Board’s efforts to meet the following short-term goals established in the SFY 2018-19 DWSRF IUP. These goals provided the framework for the State Water Board’s decision-making, maximization, and prioritization of staff and funding sources.

	<b>Short-Term Goal</b>	<b>Comments</b>
1	Work with DDW Consolidation Specialists in SFY 2018-19 to identify public health issues and evaluate solutions for SWSs, including technical assistance and consolidation where feasible.	<ul style="list-style-type: none"> <li>• DFA and DDW management met regularly to evaluate solutions and assess funding priorities for a variety of SWSs, including systems with arsenic contamination and candidates for consolidation.</li> <li>• At the concept stage, DFA staff worked with DDW’s Consolidation Specialists to identify consolidation opportunities using technical assistance resources, and then the Consolidation Specialists and DDW District Engineers regularly coordinated with DFA staff and management on the financing applications and implementation of the projects.</li> <li>• In SFY 2018-19, the State Water Board funded one consolidation (construction) project using Prop 1 grant funds.</li> </ul>
2	Ensure that the maximum principal forgiveness allowable from the FFY 2018 Capitalization Grant is provided to eligible recipients <sup>1</sup> .	<ul style="list-style-type: none"> <li>• The maximum allowable principal forgiveness from the FFY 2018 Capitalization Grant was 50% of the Grant or approximately \$49.0 million. In SFY 2018-19 the State Water Board provided \$13.25 million of principal forgiveness to SWSs serving small DACs or small SDACs as well as ESCWSs serving SDACs (see IX.C.7). As of June 30, 2019, the State Water Board had provided 0 percent (0%) of the FFY 2018 Capitalization Grant as principal forgiveness to new binding commitments and amendments of prior years’ binding commitments. The State Water Board anticipates awarding the remaining 2018 principal forgiveness in early SFY 2019-20.</li> </ul>
3	Prioritize available funding for PWSs serving fewer than 10,000 people to the maximum extent practicable and consistent with	<ul style="list-style-type: none"> <li>• The OSWS was reorganized to increase the resources available within DFA devoted to assisting SWS with their financing needs.</li> <li>• The State Water Board continued to prioritize DWSRF funding for PWSs serving less than 10,000 people in SFY 2018-19. As a result, the DWSRF provided \$12.4 million to 9 SWSs in SFY 2018-19 (Exhibit A, page 35).</li> </ul>

<sup>1</sup> USEPA requirements also allow for the FFY 2018 Capitalization Grant principal forgiveness to be awarded for the purchase, refinance, or restructuring of debt obligations where the debt was incurred after March 23, 2018.

	other governing federal and state authorities.	<p>The total amount of DWSRF funding provided over the life of the program is over \$455 million, 15% of the total DWSRF funding and the total number of SWS projects over the life of the program is over 309, 68 percent (68%) of the total DWSRF funded projects.</p> <ul style="list-style-type: none"> <li>• The SFY 2018-19 IUP also made subsidized construction financing available for PWSs serving SDACs greater than 10,000 people but less than 20,000 people. The IUP defines these PWSs as “Expanded Small Community Water Systems” that serve a SDAC. In SFY 2018-19, no principal forgiveness was provided ESCWSs serving a SDAC.</li> </ul>
4	Reduce noncompliance with drinking water standards and requirements by providing technical assistance to SWSs that have significant SDWA violations.	<ul style="list-style-type: none"> <li>• The State Water Board continued to provide a suite of technical assistance in SFY 2018-19 to SWSs, especially those with significant SDWA violations. Specifically, the DWSRF set-asides funded third-party contractors that provided a variety of TMF capacity development assistance to SWSs. See Section IV.H (page 26) for more information on DWSRF technical assistance.</li> <li>• DFA also continued to fund technical assistance for a variety of projects using Prop 1 funds.</li> <li>• DFA and DDW provided direct technical assistance to SWSs with significant SDWA violations. Examples of direct technical assistance included: (a) meeting with DDW Consolidation Specialists and applicants to discuss project concepts before applications were submitted; (b) reviewing applications with minimal material submitted and guiding applicants to complete additional application packages; and (c) helping funding recipients properly prepare and submit reimbursement claims.</li> </ul>
5	Require PWSs requesting assistance to complete a TMF assessment to improve sustainability and resiliency.	<ul style="list-style-type: none"> <li>• During SFY 2018-19, all DWSRF applications were required to include a TMF assessment, and DFA’s Project Managers also continued to evaluate these assessments as part of reviewing the DWSRF applications. As further described in Section IV.H (page 26), DWSRF applicants that lacked TMF capacity were offered technical assistance by the State Water Board to help them resolve their TMF deficiencies.</li> </ul>
6	Develop criteria and procedures for evaluating financial capacity of water systems.	<ul style="list-style-type: none"> <li>• DFA-OSWS continued to coordinate with DDW in developing additional criteria and procedures for evaluating financial capacity of water systems. The additional criteria and procedures will be incorporated into the State Water Board’s more comprehensive plan for implementing its Safe and Affordable Drinking Water Fund.</li> </ul>

7	Identify climate change vulnerabilities of proposed projects as well as mitigate the impacts that facilities may have on the climate.	<ul style="list-style-type: none"> <li>DFA staff developed a climate change worksheet that will be incorporated into the DWSRF financing application. All applicants will be required to complete the worksheet as part of their DWSRF funding applications. The climate change worksheet considers vulnerabilities of proposed projects as well as the impacts of climate change on projects being considered for DWSRF funding.</li> </ul>
8	Continue marketing and outreach efforts to PWS, including Spanish translation services, and social media to advertise the availability of technical assistance for SWSs serving DACs.	<ul style="list-style-type: none"> <li>DFA continued to participate in various PWS marketing and outreach efforts in SFY 2018-19. Specifically, DFA marketed the DWSRF program at seven (7) California Financing Coordinating Committee events, two CalTAP fairs, two symposia (treatment certification and distribution) that focused on regulation updates, sanitary surveys, and financial management, as well as 104 other online and onsite workshops and outreach events.</li> </ul>
9	Amend the DWSRF Policy to further align the CWSRF and DWSRF programs.	<ul style="list-style-type: none"> <li>The State Water Board approved an amended DWSRF Policy at its February 5, 2019, Board meeting to further align the CWSRF and DWSRF programs.</li> </ul>
10	Continue regular staff level finance/audit coordination meetings to ensure the immediate and long-term financial health of the DWSRF.	<ul style="list-style-type: none"> <li>DFA and DAS staff conducted regular finance/audit coordination meetings on August 16, 2018, January 11, 2019, and June 27, 2019 to ensure oversight of the CWSRF's finances. Standing topics at finance/audit coordination meetings included (a) reviewing cash flow of projects under contract, short and long-term cash flow projections, and cash flow needs for upcoming projects; (b) comparing actual performance with target performance measures; and (c) reviewing audit issues, program control issues, tax compliance issues, and planning for upcoming audits.</li> </ul>
11	Continue to maximize all available DWSRF state match sources, including DWSRF Local Match financing options.	<ul style="list-style-type: none"> <li>DFA continued to employ Prop 1 Drinking Water funds as State Match for DWSRF and has additional Prop 1 Drinking Water Funds for future State Match needs. In SFY 18-19, DFA elected not to use Prop 68 Drinking Water Funds as State Match for the DWSRF so that such bond funds could be used as additional complementary grants. However, DFA continued to investigate and plan for future General Obligation bond State Match options as well as short-term State Match</li> </ul>

		bonds once the bank of Prop 1 Drinking Water State Match funds is exhausted,
12	Apply for and accept the FFY 2018 Capitalization Grant; commit the FFY 2018 Capitalization Grant, including the associated state match, by June 30, 2019, so that federal funds are used efficiently and timely in accordance with 40 CFR §35.3550(c).	<ul style="list-style-type: none"> <li>• The State Water Board finalized its FFY 2018 Capitalization Grant application in June 2018. USEPA awarded the FFY 2018 Grant on September 5, 2018 in the amount of \$97,991,000. The State Water Board will provide \$19,598,200 in matching funds through Prop 1 Drinking Water funds to satisfy the state match requirement.</li> <li>• With a total commitment of approximately \$231.6 million in SFY 2018-19 to a combination of planning and construction projects, DFA obligated the FFY 2018 Capitalization Grant, with the exception of set-aside funds, before June 30, 2019. The commitment, along with previous commitments, has enabled the State Water Board to liquidate all local federal funds from the 2017 and earlier Capitalization Grants within SFY 2018-19.</li> </ul>
13	Liquidate DWSRF capitalization grants within 2 to 3 years of their award.	<ul style="list-style-type: none"> <li>• The State Water Board maintained a DWSRF federal ULO balance in SFY 2018-19 less than the sum of the two most recent Capitalization Grants consistent with USEPA's DWSRF ULO Reductions Strategy. Specifically, California's DWSRF federal ULO was \$39.76 million as of June 30, 2019, \$136.24 million less than the maximum \$176 million.</li> </ul>
14	Review cash forecasts of existing and potential commitments to ensure that DWSRF can satisfy its obligations timely and to also evaluate the need for leveraging or other actions to regulate cash outflows.	<ul style="list-style-type: none"> <li>• State Water Board staff prepared and regularly reviewed cash management reports to ensure that sufficient cash would be available to meet all disbursement requests.</li> <li>• Staff evaluated the cash flow impact of each new project during the financing approval process.</li> </ul>

## APPENDIX B: Long-Term Goals

	Long-Term Goal	Comments
1	Address Significant Risks to Public Health	<ul style="list-style-type: none"> <li>• The State Water Board helped PWSs address significant public health risks in SFY 2018-19 by funding construction and planning as well as technical assistance.</li> <li>• More than 50 percent (50%) of the projects funded by the DWSRF and its complementary funding sources addressed primary drinking water standards (see page 18). This result was attributable to close coordination between DFA and DDW. OSWS staff met regularly with DDW District staff and management to prioritize funding for small DACs and the technical assistance needed by PWSs to obtain DWSRF and complementary funding.</li> <li>• DFA also updated DDW staff monthly on the status of applications for projects to address arsenic violations, including outstanding application items; the progress of technical assistance; recently executed funding agreements; and anticipated compliance dates.</li> </ul>
2	Promote SDWA Compliance	<ul style="list-style-type: none"> <li>• DFA continued to coordinate with DDW to prioritize DWSRF and complementary funding for projects that reestablish compliance or prevent non-compliance.</li> <li>• DFA staff continued to make technical assistance available to help SWSs apply for planning and construction funding.</li> <li>• DDW also continued its permitting, inspection, monitoring and enforcement activities for compliance with the SDWA.</li> </ul>
3	Improve Affordability and Sustainability	<ul style="list-style-type: none"> <li>• The State Water Board continued to provide below market financing and principal forgiveness in SFY 2018-19 to make funding affordable for communities throughout California. The average interest rate for SFY 2018-19 was one and nine-tenths of one percent (1.9%), well below market rates. DWSRF principal forgiveness was combined with Small Community Grant Drinking Water funding in certain cases to further reduce costs for California's small DACs.</li> <li>• Approximately \$27.6 million in DWSRF principal forgiveness, and Small Community Grant Drinking Water funds were awarded to small DACs in SFY 2018-19.</li> </ul>
4	Use revenue and capital effectively	<ul style="list-style-type: none"> <li>• DFA continued to monitor cash and financing forecasts to determine whether additional capital would be needed. DFA determined that additional capital was needed during SFY 2018-19 for the DWSRF program, and the</li> </ul>

		<p>State Water Board issued approximately \$100 million in Series 2019 DWSRF bonds on April 24, 2019.</p> <ul style="list-style-type: none"> <li>• The Series 2019 bonds were issued consistent with the <i>CWSRF/DWSRF Debt Management Policy</i> to ensure the long-term financial health of the program and the requirement to maintain the DWSRF in perpetuity.</li> </ul>
5	Maintain financial integrity	<ul style="list-style-type: none"> <li>• State Water Board staff analyzed the creditworthiness of all applicants to ensure DWSRF is repaid on time and in full and imposed special conditions where appropriate on applicants to lower the credit risk.</li> <li>• Approvals and transactions associated with individual DWSRF projects were documented in each project’s file. A hard-copy file was established and maintained for each project, and an electronic record was maintained for each project in the “Loans and Grants Tracking System,” the DWSRF’s data management system.</li> <li>• Each approval and transaction in SFY 2018-19 required multiple reviews and sign-offs from staff and management to ensure accuracy and validity. Written internal procedures for the DWSRF program were also maintained.</li> <li>• State Water Board staff also surveilled financing recipients with outstanding obligations. Recipients are generally required to provide ongoing financial information after loan closing or to complete public outreach if there was significant public disapproval during their rate setting process.</li> <li>• DFA staff maintained its “watch list” of financing recipients and potential applicants that show signs of financial weakness. Financial weakness was assessed using the financing recipients’ annual financial statements, a variety of news outlets, and periodic interactions with applicants, the DDW District Offices, and the public.</li> <li>• DFA staff monitored payments of all outstanding agreements in SFY 2018-19 to identify late payments and prevent delinquent payments, that is payments greater than 10 days past the payment due date, especially payments on agreements that have been pledged to repay DWSRF revenue bonds.</li> <li>• State Water Board staff prepared financial statements for the DWSRF, and the financial statements were audited by an independent auditor in accordance with Government Auditing Standards. A copy of the audited financial statements is included in this report (Appendix</li> </ul>

		<p>E, page E-1), and is posted on the State Water Board's DWSRF website.</p> <ul style="list-style-type: none"> <li>• Designated State Water Board supervisors and managers were required to file an annual "Statement of Economic Interest" with the California Fair Political Practices Commission. In addition, State Water Board supervisors and managers completed conflict of interest training and are required to complete ethics training biennially.</li> </ul>
6	Provide good customer service with a special emphasis on assisting SDACs and DACs.	<ul style="list-style-type: none"> <li>• The OSWS continued to focus its efforts on small SDACs and small DACs, and to provide grant funds to those communities in SFY 2018-19 for safe and affordable drinking water projects.</li> </ul>
7	Ensure the timely commitment and disbursement of DWSRF funds.	<ul style="list-style-type: none"> <li>• The State Water Board prioritized staff and financial resources to the maximum extent possible to ensure that it can quickly and fully disburse DWSRF funds to existing obligations.</li> <li>• The State Water Board redirected DWSRF Program staff to implement the transition to FISCAL resulting in lower commitments and delayed disbursements of DWSRF funds.</li> <li>• The State Water Board also managed its staff to ensure that new obligations are made to eligible projects so that future commitments and disbursements are timely.</li> </ul>
8	Maximize cash flow and the disbursement of funds	<ul style="list-style-type: none"> <li>• The State Water Board continued to commit DWSRF funds based on its cash-flow model. Commitments were made based on future disbursements being made with future repayments, Capitalization Grants, or other sources, including leveraged bonds.</li> <li>• DFA also focused on recipients that were "ready to proceed" to both a funding agreement and construction. Because the State Water Board focused on "ready-to-proceed" projects that addressed public health priorities, the State Water Board successfully managed the DWSRF's finances to ensure compliance with USEPA's ULO reduction strategy.</li> <li>• The DWSRF set-asides were also employed in SFY 2018-19 for the administration of the DWSRF and the State Water Board's PWSS program managed by DDW, as well as provide for TMF and SWS technical assistance.</li> </ul>

## **APPENDIX C: Operating Agreement and Capitalization Grant Conditions**

The State Water Board agreed to meet a number of conditions described in the DWSRF Operating Agreement and Federal capitalization grant agreements. These conditions were met as described below.

### **1. Assistance Activities**

The State Water Board continued to provide DWSRF funding to eligible PWSs in SFY 2018-19 for projects needed to achieve or maintain compliance with safe drinking water standards. All activities funded were eligible under Section 35.3520 of Title 40 of Code of Federal Regulations. A total of \$231,618,235 in new DWSRF funding was awarded to fifteen (15) projects in SFY 2018-19. DWSRF funds were provided to eligible recipients to enhance drinking water treatment, distribution, storage, installation of meters, as well as ensure water system reliability through the installation of interties and the consolidation of PWSs. Water quality issues such as arsenic and nitrate contamination, as well as groundwater under direct influence, and disinfection by-product formation continued to be addressed in SFY 2018-19. Eligible recipients included privately and publicly owned community and non-profit non-community PWSs. The projects and PWSs funded in SFY 2018-19 are further detailed in Exhibit G (page 54).

The SFY 2018-19 DWSRF IUP Fundable List, consisting of one hundred and twenty-three (123) projects, included projects that might be funded by the DWSRF or from other complementary funding sources. However, many projects listed in the SFY 2018-19 DWSRF Fundable List were not funded by the DWSRF during the SFY 2018-19 for various reasons as noted in Exhibit D (page 38), including options for other funding from Prop 1 Drinking Water. The high demand for drinking water improvement funding in California required the State Water Board to prioritize projects based upon their public health benefits as well as the recipient's readiness to proceed to a funding agreement.

### **2. Eligible Categories of Projects and Financing Terms**

The State Water Board continued to provide below-market financing and additional subsidy in SFY 2018-19 for projects ranked in Categories A-F (page 18) of the DWSRF public health prioritization scheme. The State Water Board also generally prioritized higher ranked public health categories and projects benefiting small DACs in SFY 2018-19. Types of assistance included loans and installment sale agreements for the planning, design, and construction of drinking water infrastructure projects.

Principal forgiveness was provided to SWSs that served DACs and SDACs and was available to eligible ESCWSs serving SDACs. SWSs serving DACs and eligible ESCWSs serving SDACs generally received zero percent (0%) interest rates on DWSRF repayable financing. The standard interest rate for all other repayable financing averaged one and nine-tenths of one percent (1.9%), which was one-half the state's average general obligation rate in the previous year. Standard repayable financing for construction projects for publicly and privately owned PWSs and PWSs serving DACs was amortized over a 30-year period.

### **3. Provide a State Match**

The State Water Board demonstrated the source of its twenty percent (20%) general state match requirements (\$19.5 million) for the FFY 2018 Capitalization Grant (\$97.9 million) in SFY 2018-19 through appropriations provided under Chapter 5, Section 79724 of Prop 1 Drinking Water. As of June 30, 2019, approximately \$115 million of Prop 1 Drinking Water funds had been appropriated and encumbered as State Match. In total, as of June 30, 2019, California had disbursed approximately \$399.26 million in cumulative state match funds to the DWSRF program through a combination of state general fund and general obligation bond proceeds/ appropriation, local match, and short-term financings with the IBank.

### **4. Binding Commitments Within One Year**

The State Water Board continued to commit DWSRF funding to projects in an amount equal to or greater than one hundred and twenty percent (120%) of each federal payment within one year of receipt of that payment. As of June 30, 2019, executed funding agreements totaled approximately \$3.243 billion, or 193 percent (193%) of the approximately \$1.683 billion in federal payments received for DWSRF loans.

### **5. Expedious and Timely Expenditure**

The State Water Board continued to make timely and expeditious use of DWSRF funds, especially federal capitalization grant funds in accordance with USEPA's ULO reduction strategy. USEPA's ULO reduction strategy generally requires that no more than two federal capitalization grants remain undisbursed at any one time. As of June 30, 2019, the State Water Board had only \$39.757 million in undisbursed FFY 2017 and FFY 2018 Capitalization Grant funds, of which approximately 43 percent (43%) were predominantly set-aside funds already allocated for eligible use.

This timely and expeditious use of federal capitalization grant funds was substantially achieved through cash-flow modeling and the over-commitment of DWSRF funds in SFY 2018-19 and prior fiscal years. In SFY 2018-19, there was no minimum funding agreement amount to ensure optimal use of DWSRF funds without leveraging. Therefore, the State Water Board exceeded the minimum

commitment amount by awarding approximately \$231.6 million in DWSRF funds by June 30, 2019. As described in the SFY 2018-19 IUP, the minimum commitment amount depended upon projected funding disbursements relative to existing fund balances and projected future revenues such that the DWSRF fund balance did not substantially decrease below \$100 million.

The timely and expeditious use of DWSRF funds was also satisfied through the prompt and efficient processing of DWSRF reimbursement claims, albeit the DWSRF disbursement rate was below average in SFY 2018-19 due to the State Water Board's implementation of FI\$Cal. To ensure timely reimbursement, DWSRF claims were generally reviewed and paid within 45 days from receipt of a complete claim. But, this period was extended in the last few months of the fiscal year due to the State Water Board's implementation of FI\$Cal. Prior to FI\$Cal implementation, DFA staff reviewed and approved complete disbursement claims generally within 25 days, and then routed the requests to DAS for processing. DAS generally processed requests within eight calendar days of receiving the claim, and the State Controller's Office (SCO) generally issued a check (warrant) within seven calendar days to the funding recipient. The implantation of FI\$Cal has added additional processing time to the disbursement of funds within DFA, DAS and the SCO. This change in claims processing times is expected to normalize in SFY 2019-20 but remain longer than historical averages for the foreseeable future.

The State Water Board continued to draw federal funds in SFY 2018-19 from the United States Treasury via the Automated Standard Application for Payments (ASAP) system as warrants are issued by SCO. ASAP is a request and delivery system of federal funds developed by the Financial Management Service of the United States Treasury and the Federal Reserve Bank. By using ASAP, the State Water Board draws funds from USEPA for expenditures incurred by the DWSRF program in an expeditious and timely manner. Draw requests are made within one week of an issued warrant. Requested funds are also deposited electronically the next business day to account(s) specified by the State Water Board. For the DWSRF set-aside accounts, federal draws are typically requested through ASAP on a monthly basis for the prior month's administration costs.

To further enable the timely and expeditious use of DWSRF funds, the State Water Board encumbered most loan balances to DWSRF federal funds to ensure the prompt liquidation of federal capitalization grants as claims for reimbursement were processed. As of June 30, 2019, approximately \$262.918 million of DWSRF financings had been encumbered, but not yet liquidated, to available DWSRF federal funds (\$39.757 million), constituting a 7:1 ratio.

## **6. Disadvantaged Business Enterprise (DBE) Objectives, Davis-Bacon and American Iron and Steel (AIS) Requirements**

The State Water Board negotiated a total fair share DBE objective with the USEPA beginning FFY 2018 for the DWSRF Program. The objective was two

percent (2%) for the Minority Owned Business Enterprises (MBE) and one percent (1%) for Women Owned Business Enterprises (WBE) participation for a combined three percent (3%) goal. Funding recipients for SFY 2018-19 reported participation as 3.8 percent for MBE and 1.1 percent for WBE. The overall DBE participation was 4.9 percent. Exhibit H (page 57) provides a detailed analysis of DBE participation. The State Water Board will continue to monitor participation to ensure that the “positive effort process” is followed by funding recipients.

All DWSRF funded projects were required to comply with Davis-Bacon prevailing wage requirements in SFY 2018-19. Each funding agreement included provisions requiring applicants to follow Davis-Bacon requirements. DFA conducted a variety of surveillance activities throughout SFY 2018-19 to ensure each recipient’s compliance with Davis-Bacon requirements. Such surveillance activities included (1) reviewing recipient and sub-recipient reports and compliance certifications; (2) tracking compliance with federal annual monitoring requirements; and (3) annually reviewing quarterly site inspection reports to verify the adequacy of site inspections and other control activities.

DWSRF funding recipients were also required to use American-made iron and steel products in SFY 2018-19 pursuant to [USEPA guidelines for projects involving the construction, alteration, maintenance, or repair of a PWS or public treatment works](#). DWSRF funding recipients were only exempt from this AIS requirement if the project qualified under a national or project-specific AIS waiver from USEPA. To ensure compliance with AIS requirements, the AIS provisions were included in DWSRF financing agreements and DFA examined recipient records for AIS certifications and/or any AIS waivers.

## **7. Additional Subsidy and Green Requirements**

The State Water Board continued to provide the maximum amount of available additional subsidy in the form of principal forgiveness in SFY 2018-19 for the benefit of SWSs serving DACs as well as ESCWSs serving SDACs. Since the inception of the DWSRF program, federal regulations have allowed for up to thirty percent (30%) of a capitalization grant to be provided as additional subsidy (i.e., principal forgiveness) to DACs, regardless of the size of the PWS. In 2016, Congress added a twenty percent (20%) additional subsidy allotment, separate from the thirty percent (30%) additional subsidy allocation for DACs.

The State Water Board’s SFY 2018-19 IUP directed that the maximum amount of additional subsidy allowed under federal rules and regulations be awarded to SWSs serving DACs and ESCWSs serving SDACs in the form of principal forgiveness. Table 8 (page C-5) shows the amounts necessary for compliance with rules governing the allotment and use of DWSRF principal forgiveness. Exhibit F (page 52) identifies 8 additional subsidy projects funded in SFY 2018-19.

**Table 8: Additional Subsidization Funding**

FFY Grant	SFY	Grant Award Amount	Minimum Subsidy Amount by FFY Grant <sup>1</sup>	Maximum Subsidy by FFY Grant	Committed Subsidy Amount by FFY Grant Assignment <sup>2</sup>	Uncommitted Subsidy Amount by FFY Grant Assignment <sup>3</sup>	Disbursed Subsidy Amount by SFY <sup>4</sup>	Undisbursed Subsidy Amount by SFY <sup>5</sup>
2010	10-11	\$126,958,000	\$38,087,400	\$38,087,400	\$38,087,400	\$0	\$475,501	\$0
2011	11-12	\$86,698,000	\$26,009,400	\$26,009,400	\$26,009,399	\$1	\$6,383,940	\$0
2012	12-13	\$85,358,000	\$17,071,600	\$25,607,400	\$25,380,903	\$226,497	\$9,295,931	\$0
2013	13-14	\$78,770,000	\$15,754,000	\$23,631,000	\$23,409,259	\$221,741	\$12,441,320	\$0
2014	14-15	\$83,521,000	\$16,704,200	\$24,966,300	\$23,966,300	\$0	\$15,878,833	\$0
2015	15-16	\$83,674,000	\$16,534,800	\$24,802,200	\$24,802,200	\$0	\$29,042,890	\$0
2016	16-17	\$78,215,000	\$15,643,000	\$39,107,500	\$38,833,000	\$274,500	\$30,784,001	\$0
2017	17-18	\$77,545,000	\$15,509,000	\$38,772,500	\$23,035,467	\$15,737,033	\$22,287,242	\$0
2018	18-19	\$97,991,000	\$19,598,200	\$48,995,500	\$0	\$48,995,500	\$23,993,733	\$139,395,809
Totals		\$798,730,000	\$180,911,600	\$289,979,200	\$224,523,928	\$65,455,272	\$150,583,391	\$139,395,809

Besides additional subsidy, the State Water Board may also allocate a portion of a capitalization grant to projects with “green” benefits (Green Project Reserve). In SFY 2018-19, Green Project Reserve funding was not awarded to any projects Table 9 (page C-6) shows the amount of DWSRF funding assigned to current and prior year capitalization grants to satisfy the optional DWSRF Green Project Reserve.

<sup>1</sup> USEPA, California Department of Public Health (CDPH) and the State Water Board have authorized a minimum amount of a DWSRF capitalization grant be awarded to recipients as “additional subsidy” (i.e. principal forgiveness) per governing State and federal rules.

<sup>2</sup> In accordance with USEPA procedures, these amounts represent the additional subsidy committed to eligible DWSRF projects and assigned under the additional subsidy authority of the respective DWSRF capitalization grant as of 6/30/2019.

<sup>3</sup> In accordance with USEPA procedures, these amounts represent the additional subsidy balances under the maximum authority of the respective DWSRF capitalization grant that have not been committed to eligible DWSRF projects as of 6/30/2019.

<sup>4</sup> These amounts represent the additional subsidy disbursements of the assigned projects per SFY. In accordance with USEPA Policy, the additional subsidy is encumbered and expended from any available funding sources within the DWSRF (i.e. federal capitalization grants, state match, repayment funds).

<sup>5</sup> This amount represents the total encumbering balance as well as the additional subsidy authority not yet encumbered as of 6/30/2019.

**Table 9: Green Project Reserve Funding**

FFY Grant	SFY	Grant Award Amount	Minimum Green Project Reserve Amount by FFY Grant <sup>6</sup>	Committed Green Project Reserve Amount Per FFY Grant Assignment <sup>7</sup>	Disbursed Green Project Reserve Amount by SFY <sup>8</sup>	Undisbursed Green Project Reserve Amount by SFY <sup>9</sup>
2010	10-11	\$126,958,000	\$25,391,600	\$25,391,600	\$0	\$0
2011	11-12	\$86,698,000	\$17,339,600	\$26,013,832	\$12,457,278	\$0
2012	12-13	\$85,358,000	\$0	\$7,231,611	\$31,910,690	\$0
2013	13-14	\$78,770,000	\$0	\$1,193,500	\$7,037,464	\$0
2014	14-15	\$83,221,000	\$0	\$0	\$2,242,734	\$0
2015	15-16	\$83,674,000	\$0	\$476,717	\$2,715,139	\$0
2016	16-17	\$78,215,000	\$0	\$1,098,593	\$2,203,628	\$0
2017	17-18	\$77,545,000	\$0	\$31,572,197	\$6,842,316	\$0
2018	18-19	\$97,991,000	\$0	\$0	\$15,631,164	\$11,937,187
Totals		\$700,109,00	\$42,731,200	\$92,977,600	\$81,040,413	\$11,937,187

**8. Federal Funding Accountability and Transparency Act**

The State Water Board reported one (1) project totaling \$158,190,000 into the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) in SFY 2018-19 to satisfy the FFATA reporting requirements for the FFY 2018 Capitalization Grant. The FFATA, along with associated Office of Management and Budget (OMB) directives, and interpretive guidance from USEPA, requires the State Water Board to report sub-recipient information on the use of capitalization grants awarded after October 1, 2010. The DWSRF program began reporting FFATA data in FFY 2011 on an equivalency basis, by choosing loans that equaled the total DWSRF grant amount received from the USEPA. The DWSRF program continues to report FFATA loan data on an equivalency basis to the FSRS (Exhibit I, page 58).

<sup>6</sup> USEPA requires the State Water Board to commit and expend a minimum amount of DWSRF capitalization grant to projects that qualify under the rules and requirements of USEPA’s “Green Project Reserve.”

<sup>7</sup> In accordance with USEPA procedures, these amounts represent the DWSRF project amounts committed and assigned under the Green Project Reserve authority of the respective DWSRF capitalization grant as of 6/30/2019.

<sup>8</sup> These amounts represent the Green Project Reserve disbursements for each respective SFY. Per USEPA policy, the Green Project Reserve funding is not necessarily encumbered and liquidated from DWSRF capitalization grants.

<sup>9</sup> This amount represents the total encumbering balance of Green Project Reserve funding as well as the minimum Green Project Reserve Authority not yet encumbered as of 6/30/2019.

## **9. Environmental Federal Cross-Cutters**

The State Water Board used the USEPA approved [State Environmental Review Process](#) (SERP) to review environmental impacts of DWSRF projects in SFY 2018-19. While the SERP generally follows the requirements of the California Environmental Quality Act, each applicant was also required to complete and submit an [Evaluation Form for Federal Environmental Coordination](#) (Evaluation Form). The State Water Board Staff reviewed the completed Evaluation Form, supporting information, and the environmental and cultural resource documents to assure compliance with the federal cross-cutters. Staff coordinated with the USEPA, Region 9 to initiate consultations with relevant federal agencies on projects with known (or suspected) effects under federal environmental regulations, consistent with the DWSRF Operating Agreement executed between the State Water Board and the USEPA.

## **10. Single Audit Act**

The State Water Board continued to require recipients receiving an executed agreement in SFY 2018-19 to comply with applicable provisions of the federal Single Audit Act of 1984, OMB Circular No. A-133 and 2 CFR Part 200, subpart F, and updates or revisions, thereto. The State Water Board included the applicable Single Audit Act requirements in all DWSRF financial assistance agreements executed in SFY 2018-19 and required reporting by funding recipients if the recipient received more than \$750,000 in combined federal funds for a given fiscal year. DAS also issued to DWSRF recipients in the Summer of 2019 a summary of federal funds disbursed to those recipients in SFY 2017-18. DFA and DAS assisted the State Treasurer's Office in securing any required SFY 2017-18 Single Audit Act reports from DWSRF funding recipients by the deadline of March 2019. DFA and DAS also coordinated with DWSRF funding recipients and the State Treasurer's Office on any compliance concerns with the use of DWSRF federal funds disclosed in a Single Audit Act report.

## APPENDIX D: Performance Evaluation Report

On September 16, 2019, the USEPA presented the State Water Board a combined Program Evaluation Report (PER) for the CWSRF and DWSRF programs for SFY 2017-18. The PER addressed California's performance and compliance as it pertains to the requirements of the base program elements. USEPA identified four (4) recommended follow-up actions, specific to the DWSRF program. USEPA assessed the following required program and financial elements.

1. Required Program Elements
  - (a) Annual/Biennial Report
  - (b) Funding Eligibility
  - (c) Compliance with DBE Requirements
  - (d) Compliance with Federal Requirements and Grant Conditions: i.e., Cross-Cutting Authorities, AIS, Davis Bacon, Additional Subsidy, and Green Projects and Reporting
  - (e) Compliance with Environmental Review Requirements
  - (f) Operating Agreement
  - (g) Staff Capacity\*
  - (h) Set-aside Activity (DWSRF only)
  
2. Required Financial Elements
  - (a) State Match
  - (b) Binding Commitment Requirements
  - (c) Rules of Cash Draw (including improper payments)\*
  - (d) Timely and Expeditious Use of Funds
  - (e) Compliance with Audit Requirements
  - (f) Assistance Terms
  - (g) Use of Fees
  - (h) Assessment of Financial Capability and Loan Security
  - (i) Financial Management
  - (j) Other Program and/or Financial Elements

Note: single asterisk (\*) indicates recommended follow-up action.

Program Element Item 1(g) above, Staff Capacity, USEPA acknowledged, in large part to the State Water Board's outreach and marketing efforts throughout California, the DWSRF program has seen an incremental rise in demand over the past several years and as discussed in last year's PER, this increase comes with increased workload and overall demand for staff. USEPA's suggestions to look for efficiencies in processes were met positively by the State Water Board, which implemented reorganizations in both the technical and financial sections, per the 2018 DWSRF Annual Report, aimed at addressing the augmented workload, not only affecting DWSRF, but also CWSRF.

USEPA commends the State Water Board for taking swift and constructive steps towards improving this issue.

- Recommended Follow-up: USEPA and State Water Board staff should continue their open dialogue of staffing trends, needs and capacity.
- State Water Board Response: The State Water Board actively monitors its resource capacity and understands the importance to augment workflow, assess processes, and maintain adequate staffing levels to accomplish administrative and project management activities efficiently and effectively. In recent months, the Loans and Grants Administration Branch redirected certain positions to address changes in workload demands.

Financial Element Item 2(c) Rules of Cash Draw, USEPA found that the State Water Board continues doing a great job of scrutinizing the eligibility for DWSRF project construction, engineering/design, and administrative costs submitted for reimbursement. However, as mentioned in past PERs, sometimes cost adjustments and reimbursements are not well documented or are difficult to follow, thus complicating authentication. These issues were resolved and confirmed as justified after discussions with the DWSRF disbursement analysts.

- Recommended Follow-up: USEPA welcomed the improvements that the State Water Board has implemented to streamline the project claim adjustments and reimbursement documentation procedure, as described in the 2018 DWSRF Annual Report. USEPA understands that this is a work in progress and encourages the State Water Board to consider developing or updating a comprehensive standard operating procedure for the disbursement analysts and project managers to follow.
- State Water Board Response: The State Water Board continues to work through and identify operational differences between the DWSRF and CWSRF programs, recognizing best practices and developing synergies between the programs to improve efficiency and operational consistency. In support of this effort, the State Water Board also conducts internal staff training sessions and is revisiting internal procedures to support this effort.

Financial Element Item 2(d), Timely and Expeditious Use of Funds, Fund Utilization Rate, USEPA noted that the State Water Board has demonstrated a commendable capacity to properly manage the flow of funds over this time. The fund utilization rate has increased in recent years and remains above the national average and above 100%. This indicates that the State Water Board is anticipating funds received and planning for their use prior to having them deposited.

- Recommended Follow-up: As this figure remains aggressive, USEPA recommends the State Water Board continue its open dialogue with USEPA about fund utilization and the possibility of leveraging to meet the needs of the state.

- State Water Board Response: On April 24, 2019, the State Water Board signed its first Bond Purchase Agreement for DWSRF revenue bonds, generating proceeds of approximately \$100 million for use as local assistance.

Financial Element Item 2(d), Timely and Expedient Use of Funds, Disbursement as a Percentage of Assistance Provided - Based on Cumulative Activity, USEPA noted that the California DWSRF disbursement ratio continues to improve though it does still lag the national average. Per the 2018 DWSRF Annual Report, the State uses Loans and Grants Tracking System (LGTS) as a tool to track project budgets and record pay request details. EPA commends the State for this effort.

- Recommended Follow-up: USEPA suggests that In the SFY 2018-19 annual report, the State Water Board include a discussion about disbursements including but not limited to how the transition to Financial Information System for California (FI\$Cal) is affecting the disbursement process and what the outlook for future performance is.
- State Water Board Response: The State Water Board continues to utilize its LGTS database to track project budgets and recording pay request details. The State Water Board continually analyzes specific data elements to monitor its productivity. Based on the analytics of a combination of specific data elements, the State Water Board strives to maintain a high level of efficiency in all programmatic areas, while also identifying areas in need of improvement and developing and implementing solutions.

In January of 2019, the State Water Board's SRF programs implemented the cutover from the State's California State Accounting & Reporting System (CalSTARS) to the new FI\$Cal accounting system. This implementation process required all existing encumbrances to be transitioned into the FI\$Cal, resulting in a temporary halt to project disbursement transactions. During this interim time, program staff developed new FI\$Cal compliant project disbursement request forms and worked with recipients to convert pending requests to the new forms to mitigate further delay. As the encumbering transitions were being completed, the SRF programs were able to begin transacting disbursements in FI\$Cal in late-March of 2019.

In utilizing FI\$Cal, the State Water Board will work to identify areas to regain efficiencies lost, and work to streamline procedures and approaches to improve the timeliness of project disbursement.

**APPENDIX E: SFY 2018-19 Audited Financial Statement**

**CALIFORNIA STATE WATER RESOURCES  
CONTROL BOARD  
SAFE DRINKING WATER STATE REVOLVING FUND  
Sacramento, California**

**FINANCIAL STATEMENTS  
and SINGLE AUDIT REPORTS**

**June 30, 2019 and 2018**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
California State Water Resources Control Board  
Safe Drinking Water Revolving Fund  
Sacramento, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the California State Water Resources Control Board, Safe Drinking Water Revolving Fund (Safe Drinking Water Revolving Fund), a governmental fund of the State of California, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors  
California State Water Resources Control Board  
Safe Drinking Water Revolving Fund

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Safe Drinking Water Revolving Fund as of June 30, 2019 and 2018, and the respective changes in financial and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

As discussed in Note 1 – Definition of Reporting Entity, the basic financial statements of the Safe Drinking Water Revolving Fund are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the California State Water Resources Control Board that is attributable to the transactions of the Safe Drinking Water Revolving Fund. They do not purport to, and do not, present fairly the financial position of the California State Water Resources Control Board or the State of California as of June 30, 2019 and 2018, and the changes in their financial position and their cash flows, where applicable, for the years then ended, in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages IV through X be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Safe Drinking Water Revolving Fund's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Board of Directors  
California State Water Resources Control Board  
Safe Drinking Water Revolving Fund

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2020, on our consideration of the Safe Drinking Water Revolving Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Safe Drinking Water Revolving Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Safe Drinking Water Revolving Fund's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
February 26, 2020

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER STATE REVOLVING FUND**

**MANAGEMENT'S DISCUSSION & ANALYSIS**

The following Management's Discussion and Analysis is a required supplement to the California State Water Resources Control Board's (State Water Board), Safe Drinking Water State Revolving Fund (Drinking Water State Revolving Fund program) (DWSRF) financial statements. It describes and analyzes the financial position of the DWSRF providing an overview of the DWSRF's activities for the years ended June 30, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with information that is in the financial statements and notes, which follow this section.

**Financial Highlights**

- Net position increased by \$74.5 million to a total of \$1.88 billion in 2019, which was \$6 million less than the increase of \$80.5 million in 2018. The smaller increase in net position is primarily due to lower capital contributions for loan disbursements during the year from the U.S. Environmental Protection Agency (EPA).
- Capital contributions decreased by \$12.4 million to \$91.8 million as compared to \$104.2 million in 2018. The decrease in capital contributions was mostly a result of capital available for loan disbursements from EPA capitalization grants. Capital contributions from EPA capitalization grant funds that were forgiven increased by \$0.7 million to \$2 million as compared to \$1 million in 2018.
- Cash and cash equivalents increased by \$54.9 million in 2019 as compared to a decrease of \$108.4 million in 2018. The increase in 2019 was mostly the result of an increase in cash from the issuance of the Series 2019 Revenue Bond.
- Loans receivable increased by \$116.8 million to \$1.7 billion in 2019 and increased by \$189 million in 2018. The increase in 2019 mostly reflects the continued steady rate of loan disbursements.
- Restricted portion of net position increased to \$160.5 million in 2019 as compared to \$-0- restricted net position in 2018. The increase in 2019 reflects the creation of the pledged loan requirements of the Series 2019 Revenue Bonds, the first for the DWSRF program.

**Using this Annual Financial Report**

The financial statements included in this annual financial report are those of the DWSRF. As discussed in Note 1, Definition of Reporting Entity, the basic financial statements of the DWSRF are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of the State Water Board that is attributable to the transactions of the DWSRF. They do not purport to present the financial position of the State Water Board or the State of California (State) as of June 30, 2019 and 2018 and the change in their financial positions and their cash flows for the years then ended.

## Overview of Financial Statements

This discussion and analysis is an introduction to the DWSRF financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other supplementary information.

The financial statements of the DWSRF are presented as a special purpose government engaged only in business type activities - providing loans to other governmental entities. The statements provide both short-term and long-term information about the DWSRF's financial position, which assists the reader in assessing the DWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statements of Net Position* present information on all of the DWSRF's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of the DWSRF is improving or deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present information which reflects how the DWSRF's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statements of Cash Flows* report the DWSRF's cash flows from operating activities, noncapital financing activities, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

## Net Position

In 2019, the DWSRF's net position continued to strengthen increasing by \$74.5 million, or 4.1%, to \$1.88 billion at June 30, 2019 as compared to an increase of \$80.5 million, or 4.7% the previous year. The increase in net position was \$5.9 million lower than in the previous year, mostly reflecting the lower level of capital contributions for loan disbursements from EPA capitalization grants.

The current portion of the DWSRF's liabilities was \$22.8 million in 2019 and \$9 million in 2018. In 2019, current liabilities primarily correspond to administrative expenses, which include employee salary and benefits, and principal payments for the Series 2019 Revenue Bond while the 2018 current liabilities primarily correspond to administrative expenses. Noncurrent liabilities increased by \$95.2 million in 2019 as compared to \$-0- in 2018. The increase in 2019 is the result of the issuance of the Series 2019 Revenue Bond.

A segment of the DWSRF's net position is subject to external restriction due to the debt service requirements of the Series 2019 Revenue Bond. The net position that is restricted increased in 2019 to \$160.5 million as compared to \$-0- in 2018. The increase in 2019 is due to the increase in pledged loan receivables to secure the issuance of the Series 2019 Revenue Bond.

Of the total restricted net position, \$159.6 million in 2019 and \$-0- in 2018 represent the balance of outstanding loans that were pledged as security to the Series 2019 Revenue Bond debt service. The principal and interest received during the fiscal year from these loans is used to make the semi-annual debt service payments of the revenue bonds.

The DWSRF received total payments on pledged loans of \$0.6 million (\$0.5 million of principal and \$0.1 million of interest) in 2019 of which the debt service payment was \$-0-.

The remaining \$0.9 million of restricted net position in 2019 and \$-0- in 2018 represent pledged loan repayments, which are restricted for future loan disbursements and/or debt service payments. Any excess of principal and interest received over the required debt service may be used for future loan disbursements and/or released from restriction in the event that certain criteria are met.

**Table 1**

**Net Position  
(in thousands)**

	June 30,		
	2019	2018	2017
<b>ASSETS</b>			
Cash and cash equivalents	\$ 273,681	\$ 218,760	\$ 327,134
Loans receivable	1,702,335	1,585,511	1,396,908
All other assets	25,906	14,032	7,065
<b>Total assets</b>	<b>2,001,922</b>	<b>1,818,303</b>	<b>1,731,107</b>
<b>LIABILITIES</b>			
Current liabilities	22,785	8,919	2,232
Noncurrent liabilities	95,233	-	-
<b>Total liabilities</b>	<b>118,018</b>	<b>8,919</b>	<b>2,232</b>
<b>NET POSITION</b>			
Restricted			
Debt Service	887	-	-
Security for revenue Bonds	159,647	-	-
Subtotal restricted assets	160,534	-	-
Unrestricted	1,723,370	1,809,384	1,728,875
<b>Total net position</b>	<b>\$ 1,883,904</b>	<b>\$ 1,809,384</b>	<b>\$ 1,728,875</b>

## Changes in Net Position

Program revenue for the DWSRF in 2019 was \$22.5 million of which \$1.7 million is restricted for debt service. Program revenue in 2018 was \$20.3 million of which \$-0- was restricted for debt service. In 2019 program revenue increased by \$2.2 million or 10.8% and in 2018 increased by \$2.5 million or 14%. In 2019 and 2018, program revenue reflects an increase in outstanding receivables and the interest earned year over year on those receivables.

In 2019, general revenue was \$3.3 million, which was an increase of \$0.9 million or 37%, when compared to \$2.4 million in 2018. In 2018, general revenue increased \$0.4 million or 18% when compared to \$2 million in 2017. The increase in investment income during 2019 mostly reflects increased earnings that resulted from more cash on deposit while the increase in 2018 mostly reflects the higher interest earnings from those deposits.

Total expenses decreased by \$3.3 million in 2019 as compared to a decrease of \$4.4 million in 2018. The decrease in 2019 was primarily due to a decrease in administrative expenses while the decrease in 2018 was primarily due to a decrease in principal forgiveness expenses.

Administrative expenses decreased by \$5.4 million to \$18.2 million in 2019 compared to 2018. Administrative expenses increased by \$4.8 million to \$23.6 million in 2018 compared to 2017. The decrease of administrative expenses charged to the DWSRF during 2019 primarily reflects a decrease in capital available from EPA capitalization grants for administrative activities. The increase in 2018 primarily reflects higher capital available from EPA capitalization grants for administrative activities.

Capital contributions to the DWSRF decreased by \$12.4 million, or 11.9%, in 2019 when compared to 2018. The decrease in 2019 was due to a decrease in capital contributions for loan disbursements from EPA capitalization grants. In 2018, capital contributions decreased by \$65.9 million, or 43.4% when compared to 2017. The decrease in 2018 was primarily due to a decrease in capital contributions available for loan disbursements from EPA capitalization grants.

In 2019, the DWSRF received principal forgiveness funds from EPA capitalization grants and Proposition 1 State Match funding of \$2 million and \$21.3 million, respectively. In 2018, the DWSRF received principal forgiveness funds from EPA capitalization grants and Proposition 1 State Match funding of \$1.3 and \$17 million, respectively. The loans made with these funds were forgiven as disbursed and must be repaid if certain loan conditions are not met.

**Table 2****Changes in Net Position  
(in thousands)**

	Year Ended June 30,		
	2019	2018	2017
<b>Revenues</b>			
Program revenues:			
Loan interest income	\$ 22,477	\$ 20,278	\$ 17,784
General revenues:			
Investment income	3,285	2,397	2,032
<b>Total revenues</b>	<b>25,762</b>	<b>22,675</b>	<b>19,816</b>
<b>Expenses</b>			
Program expenses:			
Administrative expenses	18,225	23,638	18,801
Principal Forgiveness expense	23,694	22,768	31,955
Revenue Bond Interest expense	366	-	-
Revenue Bond issuance costs	780	-	-
State match loan expenses	-	-	22
<b>Total expenses</b>	<b>43,065</b>	<b>46,406</b>	<b>50,778</b>
<b>Decrease in net position before contributions</b>	<b>(17,303)</b>	<b>(23,731)</b>	<b>(30,962)</b>
<b>Capital contributions</b>			
EPA capitalization grant	67,720	82,017	138,178
EPA capitalization grant Principal Forgiveness	2,047	1,331	6,750
State and other contributions	727	3,887	13,610
State and other contributions Principal Forgiveness	21,329	17,005	10,697
Subtotal capital contributions	<b>91,823</b>	<b>104,240</b>	<b>169,235</b>
<b>Change in net position</b>	<b>74,520</b>	<b>80,509</b>	<b>138,273</b>
<b>Net position - beginning of year</b>	<b>1,809,384</b>	<b>1,728,875</b>	<b>1,590,602</b>
<b>Net position - end of year</b>	<b>\$ 1,883,904</b>	<b>\$ 1,809,384</b>	<b>\$ 1,728,875</b>

## Budgetary Information

Under the California constitution, money may only be drawn from the treasury by a legal appropriation. The State Legislature authorized the DWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the DWSRF. This has the effect of allowing funds to be expended as soon as they are deposited into the DWSRF rather than waiting for appropriation authority. Since the funds in the DWSRF can only be used for limited purposes, the continuous appropriation authority allows for expeditious expenditure of funds and maximizes the benefits to local entities.

## Debt Administration

The State Water Board administers a leveraged DWSRF program. The State Water Board maintains high bond ratings from Fitch Ratings (AAA), Moody's Investors Service (Aaa), and Standard and Poor's Global Ratings Services (AAA) on the DWSRF Series 2019 Revenue Bond. In 2019, the DWSRF issued its first Series 2019 Revenue Bond for \$83.9 million at a premium of \$16.9 million. The Series 2019 Revenue Bonds were issued for the purpose of making financial assistance available to recipients for eligible projects.

As of June 30, 2019, outstanding bonds totaled \$100.8 million, an increase of \$100.8 million compared to \$0 in 2018 as shown in Table 3. The increase in 2019 was due to the issuance of the Series 2019 Revenue Bonds. The revenue bonds are backed by a pledge of specific revenue for which the annual collections are generally predictable.

Additional information on the DWSRF long-term debt can be found in Note 5, Long-Term Debt.

**Table 3**

**Outstanding Long-term Debt**  
(in thousands)

	June 30,		
	2019	2018	2017
<b>Revenue bonds</b>			
Bond principal	\$ 83,920	\$ -	\$ -
Bond premium	16,886	-	-
<b>Total revenue bonds</b>	<b>\$ 100,806</b>	<b>\$ -</b>	<b>\$ -</b>

## Economic Conditions and Outlook

In 2019, new binding loan commitments (encumbrances) were \$26.8 million, which is a 93.9% decrease when compared to new commitments made in 2018. The decrease in 2019 financing activity was due to the implementation of California's new statewide Financial Information System, FI\$Cal. The DWSRF expects financing to normalize once the implementation is complete. There continues to be a steady demand in DWSRF financing which reflects the generally positive economic conditions in California along with the need for additional infrastructure improvements.

Capitalization grant funds from EPA continue to be an important component of cash flows for financing activities. For the grant year 2019, the EPA allocated \$97 million to the DWSRF. The 2019 grant allocation is a decrease of 0.9% compared to the 2018 grant allocation of \$98 million. The 2020 federal budget, approved on December 20, 2019, indicates that the 2020 grant will be approximately \$94 million which is 3% less than the 2019 grant.

Additionally, the DWSRF continues to maintain a large loan portfolio that generates additional program revenues for financing activity. DWSRF program staff and its financial advisors continuously monitor the demand for new loans in order to be prepared to quickly sell a revenue bond if needed to meet required cash flows or to ensure sufficient encumbrances and disbursement rates to maintain acceptable liquidation of federal funds.

Although current economic conditions have reduced the number of local entities experiencing strained revenue flows, the DWSRF continues to diligently work with and surveil loan recipients to ensure full repayment of all loans.

### **Requests for Information**

This financial report is designed to provide interested parties with a general overview of the DWSRF finances. Questions concerning the information provided in this report or requests for additional information should be addressed to Ms. Heather Bell, Manager, Accounting Branch, Division of Administrative Services, P.O. Box 100, Sacramento, California 95812, or [Heather.Bell@waterboards.ca.gov](mailto:Heather.Bell@waterboards.ca.gov).

## **BASIC FINANCIAL STATEMENTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**STATEMENTS OF NET POSITION**  
**June 30, 2019 and 2018**  
(in thousands)

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 272,794	\$ 218,760
Cash and cash equivalents - Restricted	887	-
Receivables:		
Loan interest	7,762	4,771
Investment interest	1,236	552
Due from other funds and other governments	16,908	8,709
Loans receivable:		
Current portion	57,755	51,310
Current portion - Restricted	11,209	-
Total current assets	368,551	284,102
<b>OTHER ASSETS</b>		
Loans receivable:		
Noncurrent	1,484,933	1,534,201
Noncurrent - Restricted	148,438	-
Total other assets	1,633,371	1,534,201
<b>TOTAL ASSETS</b>	2,001,922	1,818,303
 <b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Revenue bond interest payable	805	-
Due to other funds	16,596	8,919
Revenue bond cost of issuance payable	250	-
Revenue bond payable	5,134	-
Total current liabilities	22,785	8,919
<b>NONCURRENT LIABILITIES</b>		
Revenue bonds payable	95,233	-
Total noncurrent liabilities	95,233	-
Total liabilities	118,018	8,919
 <b>NET POSITION</b>		
Restricted for:		
Debt service	887	-
Security for revenue bonds	159,647	-
Unrestricted	1,723,370	1,809,384
Total net position	\$ 1,883,904	\$ 1,809,384

*The accompanying notes are an integral part of the financial statements.*

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2019 and 2018**  
(in thousands)

	<b>2019</b>	<b>2018</b>
<b>OPERATING REVENUE</b>		
Loan interest income	\$ 22,477	\$ 20,278
Total operating revenue	22,477	20,278
<b>OPERATING EXPENSES</b>		
Principal Forgiveness	23,694	22,768
Personnel services	11,421	12,641
Other expenses	6,804	9,353
Grants and Subventions-setsides	-	1,644
Total operating expenses	41,919	46,406
<b>INCOME (LOSS) FROM OPERATIONS</b>	(19,442)	(26,128)
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Net investment income	3,285	2,397
Revenue bond interest expense	(366)	-
Revenue bond issuance costs	(780)	-
Total nonoperating revenue (expense)	2,139	2,397
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	(17,303)	(23,731)
<b>CONTRIBUTIONS</b>		
EPA capitalization grant	67,720	82,017
EPA capitalization grant - Principal Forgiveness	2,047	1,331
State match revenue	727	3,887
State match revenue-Principal Forgiveness	21,329	17,005
Total contributions	91,823	104,240
<b>CHANGE IN NET POSITION</b>	74,520	80,509
<b>NET POSITION - BEGINNING OF YEAR</b>	1,809,384	1,728,875
<b>NET POSITION - END OF YEAR</b>	\$ 1,883,904	\$ 1,809,384

*The accompanying notes are an integral part of the financial statements.*

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2019 and 2018**  
(in thousands)

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants disbursed	\$ -	\$ (1,644)
Cash paid to employees and vendors	(10,547)	(15,307)
Cash flows provided (required) by operating activities	(10,547)	(16,951)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Funds received from EPA capitalization grant	61,568	76,661
Funds received from the State of California	22,056	20,891
Proceeds from revenue bond issuance	100,806	-
Revenue bond issuance costs paid	(530)	-
Cash flows provided (required) by noncapital financing activities	183,900	97,552
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash received from interest on loans	19,485	19,933
Loans disbursed	(177,288)	(255,558)
Principal forgiveness disbursed	(23,694)	(22,768)
Principal received on loans receivable	60,464	66,956
Net investment income received	2,601	2,462
Net cash provided (required) by investing activities	(118,432)	(188,975)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	54,921	(108,374)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	218,760	327,134
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 273,681	\$ 218,760
<b>Reconciliation of operating income to net cash provided (required) by operating activities</b>		
Loss from operations	\$ (19,442)	\$ (26,128)
Adjustments to reconcile income from operations to net cash required by operating activities		
Cash received from interest on loans	(19,485)	(19,933)
Loans disbursed	177,288	255,558
Principal forgiveness disbursed	23,694	22,768
Principal received on loans receivable	(60,464)	(66,956)
Effect of changes in operating assets and liabilities:		
Loans receivable	(116,824)	(188,603)
Loan interest receivable	(2,991)	(345)
Due to other funds	7,677	6,688
Net cash provided (required) by operating activities	\$ (10,547)	\$ (16,951)

*The accompanying notes are an integral part of the financial statements.*

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 1 - DEFINITION OF REPORTING ENTITY**

The California State Water Resources Control Board, Safe Drinking Water State Revolving Fund (the Fund) was established pursuant to the Federal Safe Drinking Water Act of 1974 (Act) as amended in 1996. The 1996 amendment to the Act established the Drinking Water State Revolving Fund (DWSRF) program for the purposes of providing low interest financing and/or subsidies, in the form of grants and loan principal forgiveness, to public water systems for drinking water infrastructure projects necessary to establish and/or maintain compliance with safe drinking water standards. Standard construction financing has repayment terms of up to 30 years, not to exceed the useful life of the facilities. Public water systems that serve “disadvantaged” communities can have repayment terms up to 40 years, not to exceed the useful life of the facilities. Standard planning financing has repayment terms of five years. Both planning and construction financing have a standard interest rate that is half of the State of California’s (the State) general obligation bond rate from the prior calendar year. Public water systems that serve “disadvantaged” communities and have financial hardship may be eligible for 0% interest rate financing. All repayments, including interest and principal, must remain in the Fund.

Since 1997, the Fund has been capitalized by a series of grants from the U.S Environmental Protection Agency (EPA). States are required to provide matching funds equal to 20 percent of the Federal capitalization grant amount in order to receive the grants from the EPA. States may elect to use up to 31% of each grant for other eligible activities, such as DWSRF administration, other local assistance and special programs, small water system-technical assistance, and the State program management of its public water system supervision/capacity development programs. These other eligible activities under a DWSRF capitalization grant are accounted in separate funds, known as Set-asides. An additional 1:1 in matching funds must be provided by the State for the amount budgeted and expended under the State Program Management Set-aside for the 1997 thru 2017 EPA capitalization grants. As such, the State has provided \$90,540 in 1:1 matching funds as of June 30, 2017. As of June 30, 2019 and 2018, the EPA has awarded cumulative capitalization grant funding of \$1,800,663 and \$1,701,945, respectively to the State of California (State), for which the State is required to provide \$360,133 and \$340,389, respectively, of cumulative match funding to the Fund. As of June 30, 2019 and 2018, the Fund has designated \$271,963 and \$246,485, respectively, of the cumulative capitalization grant for Set-aside funding. In addition, in June 2009, the EPA awarded \$159,008 in ARRA grant funding, including \$8,152 of Set-aside funding, for which there is no State Match requirement.

Initially, the Fund was administered by the California Department of Health Services (CDHS) and then administered by the California Department of Public Health (CDPH) under the Division of Drinking Water after a restructure of CDHS by the State in July 2007. The Division of Drinking Water within CDPH managed both the DWSRF program and the State’s Public Water System Supervision program (PWSS) implementing the primacy authority in CDPH under USEPA to enforce the Safe Drinking Water Act.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 1 - DEFINITION OF REPORTING ENTITY (CONTINUED)**

As of July 1, 2014, the DWSRF program is administered by the California State Water Resources Control Board (Board), a part of the California Environmental Protection Agency, through the Division of Financial Assistance. The Division of Drinking Water, also under the Board, is focused primarily on the State's PWSS and Capacity Development programs under the primacy authority now delegated to the Board by USEPA.

The Board's primary responsibilities with the DWSRF include obtaining capitalization grants from the EPA, soliciting potential applicants, negotiating loan agreements with local communities, reviewing and approving disbursement requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements. The Board's primary responsibilities with the State's PWSS program include technical assistance and enforcement of the requirements of the Act as well as other governing State drinking water requirements. The Board consists of five member positions, which are appointed by the Governor and confirmed by the Senate.

The Board administers the DWSRF program by charging the Fund for time spent on DWSRF activities by employees of the Board, and the Fund reimburses the State for such costs in the following month. The charges include the salaries and benefits of the employees, as well as indirect costs allocated to the Fund based on direct salary costs. Employees charging time to the Fund are covered by the benefits available to State employees. The Fund is also charged indirect costs through the cost allocation plan for general State expenses.

**Reporting Entity**

The Fund follows the Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which governmental activities, organizations and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens and fiscal dependency.

The activities of the Fund and the five Set-aside funds are included in the State's Comprehensive Annual Financial Report as a governmental fund using the accrual basis of accounting. The Set-aside funds are the: (1) Administration Account, (2) Water System Reliability Account, (3) Source Protection Account, (4) Small System Technical Assistance Account, and (5) Public Water System, Safe Drinking Water Revolving Fund. The Fund is engaged only in business-type activities and therefore is required to present financial statements as a proprietary enterprise fund.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Fund conform to generally accepted accounting principles as applicable to a governmental unit accounted for as a proprietary enterprise fund. The enterprise fund is used since the Fund's powers are related to those operated in a manner similar to a for profit business where an increase in net position is an appropriate determination of accountability.

**Basis of Accounting**

The Fund's records are maintained on the accrual basis of accounting. Under the accrual basis of accounting revenue is recognized when earned and expenses are recognized when the liability is incurred. Assets and liabilities associated with the operations of the Fund are included in the Statements of Net Position.

**Operating Revenues and Expenses**

The Fund distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from carrying out the purpose of the Fund of providing low interest loans to communities and providing assistance for prevention programs and administration. Operating revenues consist of loan interest repayments from borrowers. Operating expenses include principal forgiveness, direct salary costs and benefits expenses, and allocated indirect costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

In accordance with generally accepted accounting principles, monies received from the EPA and the State are recorded as capital contributions.

When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

**Budgets**

Under the California constitution, money may only be drawn from the Treasury by legal appropriation. The State Legislature authorized the DWSRF to operate under a continuous appropriation. Continuous appropriation authority means that no further appropriations are necessary to expend all funds deposited into the DWSRF. Therefore, the Fund operations are not included in California's annual budget.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

Nearly all monies of the Fund are deposited with the California State Treasurer's office, which is responsible for maintaining these deposits in accordance with California State law. The Fund considers all such deposits to be cash equivalents. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Fund, as discussed in Note 3. Consequently, management of the Fund does not have any control over the investment of the excess cash. Investment earnings on these deposits are received quarterly. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

**Loans Receivable**

Loans are funded by capitalization grants from the EPA, State matching funds, short-term State matching loans, loan repayments, and fund earnings. Loans are advanced to local agencies on a cost reimbursement basis. Interest is calculated from the date that funds are advanced. Standard construction loans are amortized over periods up to 30 years, and not to exceed the useful life of the facilities, while construction loans for public water systems that serve "disadvantaged" communities are amortized over periods up to 40 years, also not to exceed the useful life of the facilities. Planning loans are amortized over periods up to five years. Interest only repayments begin within six months of the first disbursement with principal repayments beginning within six months after planning and/or construction completion date and are made on a semi-annual basis.

DWSRF loans funded by principal forgiveness are advanced to local agencies on a cost reimbursement basis and forgiven as each disbursement occurs. Loan agreements require repayment of the forgiven loan if all program requirements are not met.

**Allowance for Bad Debts**

There is no allowance for uncollectible accounts, as all repayments are current and management believes all loans will be repaid according to the loan terms. There have been no loan defaults in the program since its inception.

**Due to Other Funds**

Due to other funds represents amounts payable to other funds reported within the California State Water Resources Control Board that are not included in these financial statements.

**Revenue Bond Issue Costs and Original Issue Premium**

In accordance with GASB 65, revenue bond issue costs are expensed when incurred. Revenue bond original issue premium is being amortized over the term of the bonds using the effective interest method.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The California State Treasurer’s Office administers a pooled investment program for the State. This program enables the State Treasurer’s Office to combine available cash from all funds and to invest cash that exceeds current needs. The necessary disclosures for the State’s pooled investment program are included in the Comprehensive Annual Financial Report of the State of California.

Nearly all monies of the Fund are deposited with the State Treasurer’s Office and are considered to be cash equivalents. The Treasurer is responsible for maintaining the cash balances in accordance with California laws, and excess cash is invested in California’s Surplus Money Investment Fund, which is part of the Pooled Money Investment Account. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs, without prior notice or penalty.

The investments allowed by State statute, bond resolutions and investment policy resolutions restrict investments of the pooled investment program to investments in U.S. Government securities, negotiable certificates of deposit, bankers’ acceptances, commercial paper, corporate bonds, bank notes, mortgage loans and notes, other debt securities, repurchase agreements, reverse repurchase agreements, equity securities, real estate, mutual funds, and other investments. The Fund’s proportionate share of the investment income, based on the average daily balance for the period, is credited to the Fund quarterly. The Treasurer charges all funds of the State an administrative fee, which reduces the interest earned by each fund. All cash and investments are stated at fair value. Details of the investments can be obtained from the State Treasurer’s Office.

At June 30, 2019 and 2018, the Fund’s cash deposits had a carrying balance of \$7,710 and \$96,246, respectively.

Investments held by the State Treasurer are stated at fair value.

<u>Investments</u>	<u>2019</u>	<u>2018</u>
Treasury/Trust Portfolio	\$ 265,971	\$ 122,514
Total cash deposits and investments	<u>\$ 273,681</u>	<u>\$ 218,760</u>

The State Treasurer is responsible for investing funds of the Treasury/Trust Portfolio and managing the credit risk, custodial credit risk, concentration of credit risk, interest rate risk and foreign currency credit risk of the Portfolio. Refer to the State’s Pooled Investments disclosure in the June 30, 2019 and 2018, Comprehensive Annual Financial Reports for disclosure related to the risks applicable to the Portfolio.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

Cash deposits and cash equivalents are reflected on the June 30, 2019 and 2018 statements of net position as follows:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 272,794	\$ 218,760
Cash and cash equivalents - Restricted	887	-
Total cash deposits and cash equivalents	\$ 273,681	\$ 218,760

Cash and investments in the amount of \$887 and \$-0- representing various reserve accounts required by the revenue bonds, at June 30, 2019 and 2018, respectively, were restricted for future loan disbursements and debt service.

**NOTE 4 - LOANS RECEIVABLE**

Loans are made to qualified agencies for projects that meet the eligibility requirements of the Federal Safe Drinking Water Act of 1974 and any subsequent amendments. Loans are financed with capitalization grants, State match, short-term State matching loans, revenue bond proceeds, and revolving loan funds. Interest rates vary between 0.0 percent and 4.0 percent and loans are repaid over 30 years or less for standard construction or 40 years or less for disadvantaged communities, starting with interest only repayments within 6 months of the first disbursement and principal repayments beginning within 6 months after planning and/or construction completion date. Interest rates are established in the original loan agreements and are generally 50 percent of the State's General Obligation Bond Rate at the time the loan agreement is prepared. Certain communities are offered special interest rates as low as 0.0 percent. Interest earned during the construction period is calculated from the date funds are disbursed until the planning and/or construction is completed.

As of June 30, 2019 and 2018, the Fund had total binding commitments of \$3,272,787 and \$3,245,863, respectively, since program inception. As of June 30, 2019, the remaining commitment on these loans amounted to \$705,232, of which \$262,918 is federal funds. The federal loan commitments included capitalization funds of \$19,755 which will be forgiven. As of June 30, 2018, the remaining commitment on these loans amounted to \$879,290, of which \$337,576 is federal funds. The federal loan commitments included capitalization funds of \$24,428 which will be forgiven. Principal forgiveness loans are forgiven as disbursed, but must be repaid if the recipient fails to meet the program requirements.

At June 30, 2019 and 2018 the unpaid balance on all loans receivable outstanding amounted to \$1,702,335 and \$1,585,511, respectively.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

Estimated maturities of the loans receivable and interest payments thereon, at June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2020	\$ 20,325	\$ 68,964	\$ 89,289
2021	22,835	82,522	105,357
2022	21,607	85,021	106,628
2023	20,322	86,305	106,627
2024	19,011	87,175	106,186
2025-2029	75,301	423,968	499,269
2030-2034	46,368	336,767	383,135
2035-2039	26,994	237,696	264,690
2040-2044	14,642	159,272	173,914
2045-2049	5,459	121,246	126,705
2050-2054	309	13,399	13,708
Total	<u>\$ 273,173</u>	<u>1,702,335</u>	<u>\$ 1,975,508</u>
Loans not yet in repayment		-	
Total loans receivable		<u>\$ 1,702,335</u>	

**Restricted Loans Receivable**

At June 30, 2019 and 2018, \$159,647 and \$-0-, respectively, of loans receivable were pledged as security for the revenue bonds outstanding (see Note 5). The principal and interest received during the fiscal year from these loans is to be used to make the annual debt service payments on the revenue bonds. During the year ended June 30, 2019, the Fund received \$515 and \$96 of principal and interest, respectively, on these loans. Any excess of the principal and interest received over debt service payments required may be used for future loan disbursements and/or released from restriction upon approval by the Trustee in the event certain requirements are met.

**Loans to Major Local Agencies**

The Fund has made loans to the following major local agencies. The aggregate outstanding loan balances for each of these agencies exceeds 5 percent of total loans receivable. The combined outstanding loan balances at June 30, 2019 and 2018 of these major local agencies represent approximately 69.7 and 67.2 percent of the total loans receivable.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 4 - LOANS RECEIVABLE (CONTINUED)**

**Loans to Major Local Agencies (Continued)**

	<b>2019</b>	
	<b>Authorized Loan Amount</b>	<b>Outstanding Loan Balance</b>
<b><u>Borrower</u></b>		
Los Angeles, City of (acting by and through the Department of Water & Power)	\$ 991,270	\$ 658,393
Fresno, City of	418,382	338,900
Santa Barbara, City of	124,515	90,857
Woodland-Davis Clean Water Agency	103,295	98,949
	<u>\$ 1,637,462</u>	<u>\$ 1,187,099</u>

	<b>2018</b>	
	<b>Authorized Loan Amount</b>	<b>Outstanding Loan Balance</b>
<b><u>Borrower</u></b>		
Los Angeles, City of (acting by and through the Department of Water & Power)	\$ 825,451	\$ 558,413
Fresno, City of	418,382	308,898
Santa Barbara, City of	124,515	95,665
Woodland-Davis Clean Water Agency	111,359	103,294
	<u>\$ 1,479,707</u>	<u>\$ 1,066,270</u>

**NOTE 5 - LONG-TERM DEBT**

On May 9, 2019, the Fund issued \$83,920 of California Infrastructure and Economic Development Bank, Drinking Water State Revolving Fund Revenue Bonds, Series 2019, dated April 1, 2019 with coupon rates of 5 percent at a yield of 1.67%. These serial bonds are due annually in varying amounts through 2035. The interest on the bonds is due semi-annually on April 1 and October 1. The bonds maturing on or after October 1, 2029 are subject to redemption prior to their respective stated maturities at the option of the Fund on any date on or after October 1, 2028. The bonds were issued to provide funding for the issuance of additional revolving fund loans by the Fund.

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 5 - LONG-TERM DEBT (CONTINUED)**

At the time of issuance of the Series 2019 Revenue Bonds, the Fund pledged \$159,647 of the Fund's outstanding loans as security for all outstanding bonds. The principal and interest received during the fiscal year from these loans is to be used to make annual debt service payments on the revenue bonds. Any excess principal and interest received over the debt service payments required may be used for future loan disbursements and/or release from restriction upon approval by the Trustee in the event that certain requirements are met. The pledged loans are part of the April 1, 2019 Amended and Restated Master Payment and Pledge Agreement. This pledge agreement includes pledged outstanding loans from both DWSRF and California State Water Resources Control Board Water Pollution Control Revolving Fund (CWSRF) in regards to their respective bond issuances. DWSRF would only be obligated for CWSRF bond payments in the event that CWSRF would not be able to make their bond payments.

The Fund's long-term debt will mature as follows:

<b>Series 2019</b>			
<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	\$ 3,065	\$ 3,604	\$ 6,669
2021	5,410	3,880	9,290
2022	5,690	3,630	9,320
2023	6,040	3,337	9,377
2024	6,410	3,026	9,436
2025-2029	32,000	10,356	42,356
2030-2034	21,910	2,991	24,901
2035-2039	3,395	151	3,546
	<u>\$ 83,920</u>	<u>\$ 30,975</u>	<u>\$ 114,895</u>

The detail of the Fund's long-term debt is as follows:

	<b>Balance June 30, 2018</b>	<b>Issuances</b>	<b>Retirements</b>	<b>Balance June 30, 2019</b>	<b>Due Within One Year</b>
<b>Series 2019 Revenue Bonds:</b>					
Bond principal	\$ -	\$ 83,920	\$ -	\$ 83,920	\$ 3,065
Bond premium	-	16,886	439	16,447	2,069
	<u>-</u>	<u>\$ 100,806</u>	<u>\$ 439</u>	100,367	<u>\$ 5,134</u>
Less current portion:					
Bond principal	-			(3,065)	
Bond premium amortization	-			(2,069)	
Long-term portion	<u>\$ -</u>			<u>\$ 95,233</u>	

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 6 - CAPITAL CONTRIBUTIONS**

The Fund is capitalized by annual grants from the EPA. The State must also contribute an amount equal to 20 percent of the federal capitalization amount. The State's matching contribution has been provided through the appropriation of State resources. As of June 30, 2019 and 2018 the EPA has awarded to the State cumulative capitalization grants, including in-kind of, \$1,800,663 and \$1,701,945, respectively. As of June 30, 2019 and 2018, the State has drawn, cumulatively \$1,760,906 and \$1,691,139, respectively, for loans, and administrative expenses. The State has provided matching funds of \$399,257 and \$377,201, respectively.

In addition, as of June 30, 2019, the EPA has awarded the ARRA grant of \$159,008 to the fund for which there is no State matching requirements. As of June 30, 2019 \$159,008 has been drawn, cumulatively, for loans and administrative expenses, of which \$121,290 was for principal forgiveness (See Note 4). There were no State matching requirements for the grant which was fully drawn as of June 30, 2015.

Table 1 summarizes the EPA capitalization grants awarded, amounts drawn on each grant as of June 30, 2019 and 2018, and balances available for future loans as of June 30, 2019. Table 2 summarizes the State match amounts paid by the State as of June 30, 2019 and 2018. As of June 30, 2019 and 2018, the State match required is \$352,181 and \$338,082, respectively. As of June 30, 2019 and 2018, the State match available for potential future State match is \$47,076 and \$39,119, respectively.

Year	Grant Award	Funds Drawn As of June 30, 2017	Funds Drawn During Year Ended June 30, 2018	Funds Drawn As of June 30, 2018	Funds Drawn During Year Ended June 30, 2019	Funds Drawn As of June 30, 2019	Available for Loans and Setasides as of June 30, 2019
1997-2013	\$ 1,380,121	\$ 1,380,121	\$ -	\$ 1,380,121	\$ -	\$ 1,380,121	\$ -
2014	82,921	82,921	-	82,921	-	82,921	-
2015	82,279	75,425	5,805	81,230	1,049	82,279	-
2016	78,140	67,658	10,184	77,842	298	78,140	-
2017	77,545	-	67,359	67,359	8,440	75,799	1,746
2018	97,991	-	-	-	59,980	59,980	38,011
	<u>\$ 1,798,997</u>	<u>\$ 1,606,125</u>	<u>\$ 83,348</u>	<u>\$ 1,689,473</u>	<u>\$ 69,767</u>	<u>\$ 1,759,240</u>	<u>\$ 39,757</u>
In-kind (Direct Payment)							
Made by EPA	1,666	1,666	-	1,666	-	1,666	-
	<u>\$ 1,800,663</u>	<u>\$ 1,607,791</u>	<u>\$ 83,348</u>	<u>\$ 1,691,139</u>	<u>\$ 69,767</u>	<u>\$ 1,760,906</u>	<u>\$ 39,757</u>
2008-ARRA	159,008	159,008	-	159,008	-	159,008	-
	<u>\$ 1,959,671</u>	<u>\$ 1,766,799</u>	<u>\$ 83,348</u>	<u>\$ 1,850,147</u>	<u>\$ 69,767</u>	<u>\$ 1,919,914</u>	<u>\$ 39,757</u>

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 6 - CAPITAL CONTRIBUTIONS (CONTINUED)**

**TABLE 2**

	<b>State Match Paid During Year Ended June 30, 2018</b>	<b>State Match Paid As of June 30, 2018</b>	<b>State Match Paid During Year Ended June 30, 2019</b>	<b>State Match Paid As of June 30, 2019</b>
State Disbursed	\$ 267,360	\$ 20,892	\$ 288,252	\$ 310,308
State Interest Disbursed	88,950	-	88,950	88,950
	<u>\$ 356,310</u>	<u>\$ 20,892</u>	<u>\$ 377,202</u>	<u>\$ 399,258</u>

**NOTE 7 - RISK MANAGEMENT**

The Fund participates in the State of California's Risk Management Program. The State has elected, with a few exceptions, to be self-insured against loss or liability. There have been no significant reductions in insurance coverage from the prior year. In addition, settled claims have not exceeded insurance coverage in the last three fiscal years. Refer to the State's Risk Management disclosure in the June 30, 2019 and 2018 Comprehensive Annual Financial Reports.

**NOTE 8 - NET POSITION**

Governmental Accounting Standards Board Statement provides for three components of net position: net investment in capital assets, restricted and unrestricted. As of June 30, 2019 and 2018 the Fund had no net position invested in capital assets.

Restricted net position includes net position that is restricted for use, either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. At June 30, 2019 and 2018 the Fund had restricted net position of \$887 and \$-0-, respectively, representing amounts received from borrower loan repayments on pledged loans. As of June 30, 2019 and 2018 pledged loans restricted for future bond debt service payments were \$159,647 and \$-0-, respectively, representing loans receivable pledged as security for the revenue bond (see Note 5).

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD**  
**SAFE DRINKING WATER STATE REVOLVING FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**  
(Dollar Amounts Expressed in Thousands)

**NOTE 8 - NET POSITION (CONTINUED)**

Unrestricted net position consists of net position that does not meet the definition of invested in capital assets or restricted. Although the Fund reports unrestricted net position on the face of the statements of net position, unrestricted net position is to be used by the Fund for the payment of obligations incurred by the Fund in carrying out its statutory powers and duties and is to remain in the Fund.

This information is an integral part of the accompanying financial statements.

## **SINGLE AUDIT REPORTS**

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER STATE REVOLVING FUND  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2019 and 2018**

<u>Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Subrecipients</u>
<b><u>U.S. Environmental Protection Agency</u></b>			
Direct Programs:			
Capitalization Grants for State Revolving Funds	66.468	\$ 69,766,918 (*)	\$ 51,542,716
		<u>\$ 69,766,918</u>	<u>\$ 51,542,716</u>

(\*) Tested as a Major Program

*See notes to schedule of expenditures of federal awards.*

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER STATE REVOLVING FUND  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2019**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the California State Water Resources Control Board, Safe Drinking Water State Revolving Fund under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Safe Drinking Water State Revolving Fund of the California State Water Resources Control Board has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Code.

**NOTE 3 – DISBURSEMENTS TO SUBRECIPIENTS**

Capitalization Grants for Safe Drinking Water State Revolving Fund CFDA# 66.468 include \$51,542,716 of expenditures that were disbursed as loan awards, which includes \$2,046,904 of principal forgiveness loans and \$-0- of expenditures that were disbursed as grant awards to qualifying subrecipients.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
California State Water Resources Control Board  
Safe Drinking Water Revolving Fund  
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the California State Water Resources Control Board, Safe Drinking Water Revolving Fund (Safe Drinking Water Revolving Fund), a governmental fund of the State of California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Safe Drinking Water Revolving Fund's basic financial statements, and have issued our report thereon dated February 26, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Safe Drinking Water Revolving Fund internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Safe Drinking Water Revolving Fund internal control. Accordingly, we do not express an opinion on the effectiveness of Safe Drinking Water Revolving Fund internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Safe Drinking Water Revolving Fund financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
February 26, 2020



## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors  
California State Water Resources Control Board  
Safe Drinking Water Revolving Fund  
Sacramento, California

### **Report on Compliance for Each Major Federal Program**

We have audited California State Water Resources Control Board, Safe Drinking Water revolving Fund's (Safe Drinking Water Revolving Fund) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Safe Drinking Water Revolving Fund's major federal programs for the year ended June 30, 2019. Safe Drinking Water Revolving Fund's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Safe Drinking Water Revolving Fund's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Safe Drinking Water Revolving Fund's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Safe Drinking Water Revolving Fund's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Safe Drinking Water Revolving Fund complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

**Report on Internal Control Over Compliance**

Management of Safe Drinking Water Revolving Fund is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Safe Drinking Water Revolving Fund's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Safe Drinking Water Revolving Fund's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors  
California State Water Resources Control Board  
Safe Drinking Water Revolving Fund

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Greenwood Village, Colorado  
February 26, 2020

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER REVOLVING FUND  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2019**

**PART I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:  
 Material weakness(es) identified? \_\_\_\_\_ yes   √   no

Significant deficiency(ies) identified  
 not considered to be material weaknesses? \_\_\_\_\_ yes   √   none reported

Noncompliance material to financial statements  
 noted? \_\_\_\_\_ yes   √   no

**Federal Awards**

Internal control over major program:  
 Material weakness(es) identified? \_\_\_\_\_ yes   √   no

Significant deficiency(ies) identified  
 not considered to be material weaknesses? \_\_\_\_\_ yes   √   none reported

Type of auditor's report issued on compliance  
 for major program: Unmodified

Any audit findings disclosed that are required  
 to be reported in accordance with  
 2 CFR 200.516(a)? \_\_\_\_\_ yes   √   no

Identification of major program:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
66.468	Capitalization Grants for State Revolving Funds

Dollar threshold used to distinguish between  
 Type A and Type B programs: \$2,093,008

Auditee qualified as low-risk auditee?   √   yes \_\_\_\_\_ no

**PART II - FINDINGS RELATED TO FINANCIAL STATEMENTS**

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

**PART III - FINDINGS RELATED TO FEDERAL AWARDS**

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**CALIFORNIA STATE WATER RESOURCES CONTROL BOARD  
SAFE DRINKING WATER REVOLVING FUND  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
Year Ended June 30, 2019**

**PART IV - PRIOR YEAR FINDINGS**

There were no findings in the prior year that are required to be reported.