

**California Clean Water and Drinking Water
State Revolving Fund Program Evaluation Report for SFY Ending 2024
September 29, 2025**

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Executive Summary

EPA conducted its annual review of the California State Water Resources Control Board (SWRCB) Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF) programs in accordance with EPA's SRF annual review guidance. Based upon the programmatic and financial reviews and on-site interviews, EPA concludes that the State of California has administered the programs in compliance with the capitalization grant agreements. All financing executed by the SWRCB assisted wastewater and water systems to maintain or bring them into compliance with federal and state clean water and drinking water requirements.

The SRF programs in California demonstrated strong performance in SFY 2024. In its second year of implementing the supplemental sources of funding provided by the Infrastructure Investment and Jobs Act (IIJA), SWRCB executed \$50 million in new CWSRF assistance and \$261.5 million in new DWSRF assistance and achieved among the highest fund utilizations in the country. In light of the California SRF programs' performance and activities conducted during the review period, EPA has identified the following required action items for the State Water Resources Control Board (SWRCB) to address accordingly:

1. **Equivalency projects:** SWRCB must report additional equivalency projects to www.Sam.gov as specified in the FFATA section of this PER, after additional DW Emerging Contaminant and Lead Service Line Replacement assistance agreements are identified.
2. **Additional subsidy:** As of June 30, 2024, SWRCB has not committed the minimum additional subsidy required for the following grants: FFY 2022 DW IIJA General Supplemental, FFY 2022 DW IIJA LSLR, and all FFY 2023 grants. SWRCB must detail necessary milestones in its Annual Reports towards achieving compliance for these grants if the State cannot commit the minimum required by the next state fiscal year reporting cycle.
3. **Annual Reports:** As discussed at the exit conference, EPA and SWRCB agreed to interim milestones leading to delivery of the final SFY 2024-2025 Annual Reports. The interim milestones and deadlines are as follows. SWRCB will provide:
 - Lists of projects executed between July 1, 2024-June 30, 2025, by November 1, 2025
 - All reporting to OWSRF for SFY 2024-2025 by November 1, 2025
 - Draft Annual Reports by December 31, 2025
 - Final Annual Reports by March 30, 2026
4. **ASADRA:** The remainder of ASADRA funds should be committed no later than June 2026.
5. **Uncommitted lead funds:** By January 2026, EPA asks SWRCB to thoroughly evaluate its needs for IIJA LSLR funding, encompassing both its project pipeline and set-aside activities, and meet with EPA to continue the discussion on voluntary de-obligation.

EPA's annual review included an insightful discussion with SWRCB regarding the programmatic and financial risks facing the programs, including but not limited to uncertain future federal capitalization and barriers associated with the federal requirements. In SFY2024, for the first time in the DWSRF program, SWRCB began collecting administrative and small community grant fees to mitigate for potential reductions in federal funding and the sunset of state-provided sources of principal forgiveness, the latter of which has largely fueled the State's ability to fund infrastructure projects serving disadvantaged communities sans federal SRF requirements for the last 5-10 years. EPA commends SWRCB for taking steps to mitigate for these risks and looks forward to its continued partnership with California in implementing the SRF programs.

Introduction and Scope

In accordance with the Safe Drinking Water Act and the Clean Water Act, EPA provides funds to states to capitalize their DWSRF and CWSRF programs. EPA conducts oversight of each state's DWSRF and CWSRF program on an annual basis, as required by 40 CFR §35.3165(c) and 40 CFR 35.3570(c). The purpose of the annual review process is to assess the cumulative program effectiveness, fiscal health, compliance with statutes and regulations, operating agreements, and grant conditions governing the DWSRF and CWSRF programs.

SFY 2024 Accomplishments

The California DWSRF uses federal capitalization grants, state match funds, loan repayments, and interest earnings to make loans for construction of drinking water treatment facilities and support several Safe Drinking Water Act programs. As reported in OWSRF, SWRCB has received \$3.59 billion¹ from EPA in DWSRF capitalization grants since the inception of the program. Together with the state match and American Recovery and Reinvestment Act (ARRA) funds, the total state-federal investment is \$4.18 billion². Since the inception of the program, SWRCB has closed 603³ DWSRF assistance agreements totaling \$4.94 billion⁴ as of June 30, 2024.

The California CWSRF uses federal capitalization grants, state match funds, loan repayments, bond proceeds and interest earnings to make loans for construction of wastewater treatment facilities, the implementation of nonpoint source water quality control projects, and the development and implementation of estuary enhancement projects. As reported in OWSRF, SWRCB has received \$4.236 billion⁵ from EPA in CWSRF capitalization grants since the inception of the program, including ARRA and special appropriation grant funds. Together with the state match, the total state-federal investment is \$5.02 billion⁶. Since the inception of the program, SWRCB has closed 1,010⁷ CWSRF assistance agreements totaling \$14.4 billion⁸ as of June 30, 2024.

To provide EPA with information on the progress and accomplishments of the California Clean Water (CW) and Drinking Water (DW) SRF programs for the period ending June 30, 2024, SWRCB submitted draft versions of the California DWSRF and CWSRF Annual Reports to EPA on December 13, 2024, and final versions on July 22, 2025. From July 29 through July 31, 2025, EPA conducted an on-site annual review of SRF program activities. During this time, EPA Region 9, accompanied by staff from EPA Headquarters, conducted in-person interviews with SWRCB to discuss various aspects of the DWSRF and CWSRF programs. On July 31, 2025, EPA held an exit meeting to discuss observations and recommendations taken from the annual review.

The Program Evaluation Report (PER) covers all program activities from program inception to the present, with major emphasis on the activities performed during the last state fiscal year. This PER documents EPA's observations, recommendations and required action items based on California's

¹ NIMS, Line 3

² Sum of NIMS Lines 3 and 35

³ NIMS, Line 136

⁴ NIMS, Line 130

⁵ NIMS, Line 57

⁶ Sum of NIMS Lines 57 and 91

⁷ NIMS, Line 117

⁸ NIMS, Line 110

administration of the SRF programs through state fiscal year 2024 (SFY 2024), or July 1, 2023 to June 30, 2024, otherwise referred to as the review period. EPA Region 9 used the *February 2025 SRF Annual Review Guidance*, the *SRF Annual Review Checklist*, the *SRF Project File Review Checklist*, data collected in the SRF Data System (OWSRF), and cumulative and annual financial indicators to ensure that all major elements of the programs were reviewed.

Programmatic Review

EPA's review assessed the State's ability to effectively administer DWSRF and CWSRF program activities. This section presents EPA's programmatic observations and action items to be incorporated into future operations, Annual Reports, or management of the program. As necessary, EPA will continue to meet regularly with the State to discuss these and other issues related to the California DWSRF and CWSRF.

Staff Capacity and Programmatic Updates

In SFY 2024, SWRCB filled vacancies within the Loans and Grants Branch and Admin Branch and the program was considered adequately staffed. The teams supporting the two SRF programs comprised 104.5 staff and management positions in SFY 2024. In the CWSRF program, there were 31 project managers, engineers and scientists, 5 administrative and financial staff, and 3 managers. In the DWSRF program, there were 20 project managers, engineers and scientists, 11 administrative and financial staff, and 5 managers. Additionally, DWSRF technical assistance was carried out by 28 technical assistance project managers and engineers, overseen by 1.5 TA managers. These numbers do not reflect attorneys advising the SRF programs. Looking ahead into SFY 2025, unfilled SRF and non-SRF positions across the four branches of the Division of Financial Assistance were swept.

During the review period, the environmental review unit actively worked with EPA Region 9 to develop major revisions to the State's CWSRF State Environmental Review Process document (SERP), mirroring revisions to its DWSRF SERP that EPA approved the prior fiscal year. Updates included revising the list of federal cross-cutters to align with new guidance from EPA and clarifying requirements for non-treatment works projects. SWRCB also initiated efforts to amend its policies governing the CWSRF and DWSRF in SFY2024 that were later adopted in SFY 2025.

Compliance with Federal Requirements and Grant Conditions

A. Project File Review

Project file reviews confirm project eligibility and ensure the State and borrowers are complying with all applicable statutes, regulations, policies, and grant terms and conditions. For SFY 2024, EPA reviewed three CWSRF project files and six DWSRF project files representing projects funded by the base SRF and IIJA capitalization grant awards, including equivalency projects, projects receiving additional subsidization, and lead service line inventories. EPA Region 9 selected a number of projects that were executed in SFY 2024-2025 in order review equivalency projects and requirements associated with the FFY 2023 capitalization grants. Some agreements were signed prior to going out for construction bid, and documents produced or provided later during construction, such as inspection reports and American Iron and Steel (AIS) certifications, were not available for all projects at the time of review. The project file review checklists for each of the projects listed below can be found in **Attachment B**.

CWSRF - EPA's review of CWSRF project files found the projects to be eligible and compliant with the program requirements.

Recipient	Project	Assistance Amount	Agreement Date	Project Category
Palo Alto, City of	Advanced Water Purification System (AWPS) 1 MGD Project	\$56,279,960	3/27/2025	FFY23 CW base equivalency project
West Bay Sanitary District	Bayfront Recycled Water Facility	\$50,000,000	9/27/2024	FFY23 CW BIL General Supplemental equivalency project
Colusa, City of	Water Consolidation - Walnut Ranch Community Facilities Improvement Project	\$4,480,684	10/14/2023	Project benefitting a DAC receiving additional subsidy

DWSRF - EPA's review of DWSRF project files found the projects to be eligible and in compliance with the program requirements.

Recipient	Project	Assistance Amount	Agreement Date	Project Category
Jurupa Community Services District	Etiwanda Intervalley Water Quality & Water Resiliency Project-Pipeline Phase 1A (EC)	\$66,180,000	6/18/2024	FFY23 DW base equivalency project
Los Angeles, City of Acting by and through the Department of Water & Power	Manhattan Wellfield On-site Hypochlorite Generation Station	\$9,574,000	8/9/2023	FFY23 DW BIL General Supplemental equivalency project
Fort Bragg, City of	Water Treatment Plant Overhaul and Water Tank Rehabilitation	\$11,099,340	7/31/2023	Project benefitting a DAC receiving additional subsidy
Parlier, City of	1,2,3-TCP Removal Treatment Systems	\$10,461,287	11/9/2023	FFY23 DW BIL Emerging Contaminants project
Shasta Community Services District	Lead Service Line Inventory	\$235,000	10/24/2024	FFY23 DW BIL Lead Service Line Inventory project

San Diego, City of	Lead Service Line Inventory	\$7,770,000	12/20/2024	FFY23 DW BIL Lead Service Line Inventory project
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EPA did not identify any issues in reviewing project files based on the documentation provided. SWRCB conducted a full technical review and completed the environmental review process for each project listed above. EPA determined that the project files reviewed were fully documented and confirmed the eligibility of each project and recipient. Overall, SWRCB demonstrated effective project oversight.

B. State Match

State match requirements for the federal fiscal year (FFY) 2023 grants were as follows:

FFY	Grant	Award Amount	Match	Match Amount
23	CWSRF Base SRF	\$53,649,000	20%	\$10,729,800
23	CWSRF IIJA General Supplemental	\$149,075,000	10%	\$14,907,500
23	CWSRF IIJA Emerging Contaminants	\$15,208,000	0%	\$0
23	DWSRF Base SRF and reallocation	\$53,272,000	20%	\$10,836,600
23	DWSRF IIJA General Supplemental	\$227,150,000	10%	\$22,715,000
23	DWSRF IIJA Emerging Contaminants	\$82,428,000	0%	\$0
23	DWSRF IIJA Lead Service Line	\$28,650,000	0%	\$0

The FFY 2023 match requirements totalled \$25,637,300 for the Clean Water and \$33,551,600 for the Drinking Water base SRF and IIJA General Supplemental grants. As documented in Note 6 of the State's audited financial statements, as of June 30, 2023, SWRCB had deposited excess state match of \$19,440,000 for Clean Water and \$27,711,000 for Drinking Water in each Fund to contribute towards match needs for the next year. SWRCB provided supplemental disbursement logs from the State's Loans and Grants Tracking System (LGTS) to demonstrate that the remaining match required, totalling \$6,197,300 for Clean Water and \$5,840,600 for Drinking Water, was disbursed on November 27, 2023, and January 17, 2024, respectively, prior to drawing from the FFY 2023 capitalization grants. In summary, the FFY 2023 match requirements for the State's Clean Water and Drinking Water base SRF and IIJA General Supplemental capitalization grants have been met.

C. Reporting

SRF Data System Reporting

In accordance with the grant term and condition, SWRCB is required to enter project-specific data into the OWSRF database within the quarter following each loan execution. All 14 funded assistance agreements under CW in SFY 2024 totalling \$50 million have been entered. For DW, all 30 assistance agreements totalling \$261.5 million are in the system. Reporting leveraging activities into OWSRF was a prior year action item, which SWRCB achieved in SFY 2024 by reporting its Series 2024 revenue bond sale issued on March 13, 2024.

Federal Financial Accountability and Transparency Act (FFATA) Reporting

FFATA requirements are considered met when assistance agreements exceeding \$30,000 and non-exempted activities funded through the DWSRF set-asides are reported to www.Sam.gov in an amount

equivalent to the full capitalization grant.⁹ The following amounts were reported to fulfill FFATA requirements in SFY 2024 for grants awarded in FFY 2023 and 2022, where additional reporting was required:

Grant	Grant Amount less Set-Asides	Past Subawards Reported	SFY24 Sub-Awardees Reported	SFY24 Subawards Total	Future Reporting Required*
CWSRF					
FFY23 CW Base SRF	\$53,649,000	N/A	Palo Alto	\$53,649,000	None.
FFY23 CW IIJA General Supplemental	\$149,075,000	N/A	West Bay, Carpinteria, Daly City	\$149,075,000	None.
DWSRF					
FFY22 DW Base SRF	\$45,746,060 <i>\$61,819,000</i>	\$9,285,000	San Diego	\$52,534,000	None.
FFY22 DW IIJA General Supplemental	\$117,462,420 <i>\$158,733,000</i>	\$56,239,000	LADWP, Santa Cruz	\$80,352,000	None.
FFY22 DW IIJA Emerging Contaminants	\$56,007,260 <i>\$73,336,000</i>	\$0	Orange, Parlier, Fullerton, Jurupa, Sierra Park Water Company	\$25,589,671	\$30,417,589
FFY22 DW IIJA Lead Service Line Replacement	\$192,241,680 <i>\$250,107,000</i>	\$0	San Diego, Shasta, Sweetwater Authority	\$8,887,495	\$183,354,185
FFY23 DW Base SRF	\$40,095,420 <i>\$54,183,000</i>	N/A	Jurupa	\$54,183,000	None.
FFY23 DW IIJA General Supplemental	\$168,091,000 <i>\$227,150,000</i>	N/A	LADWP, San Diego	\$227,150,000	None.
FFY23 DW IIJA Emerging Contaminants	\$76,204,720 <i>\$97,636,000</i>	N/A	East Orange County, Tustin, Irvine Ranch	\$14,851,644	\$61,353,076
FFY23 DW IIJA Lead Service Line Replacement	\$14,038,500 <i>\$28,650,000</i>	N/A	None.	\$0	\$14,038,500

*Amounts specified for DW grants subtract set-aside expenses, decreasing the total amount required to be reported to Sam.gov. The full amount of each DW capitalization grant is represented in italics.

⁹ As noted in the November 7, 2023, memorandum, "Clarification of Federal Funding Accountability and Transparency Act Reporting Requirements in the State Revolving Fund Programs", many typical set-aside activities are exempt from FFATA subaward reporting. As such, the total dollar amount of DWSRF FFATA subaward reporting is typically less than the total dollar amount of the DWSRF capitalization grant.

SWRCB has fulfilled the equivalency reporting requirements for its FFY 2022 and FFY 2023 grants, with the exception of the FFY 2022 and FFY 2023 DW IJIA Emerging Contaminant and DW IJIA Lead Service Line Replacement grants. Additional projects will need to be reported to meet equivalency requirements for these grants as detailed above, totalling \$91,770,665 for DW Emerging Contaminants and \$197,392,685 for DW Lead Service Line Replacement grants across the two federal fiscal years. As discussed in EPA's November 2023 State Revolving Fund Equivalency Handbook:

"If the final assistance agreement amounts are lower than the capitalization grant amount, the state should identify additional assistance agreements to make up the shortfall. It is acceptable for new assistance agreements to be signed in a later year than the original equivalency group to make up a shortfall; the SRF program should just note in the IUP and Annual/Biennial Report which assistance agreement(s) have been selected to compensate for a shortfall in prior year equivalency projects."

Required Action Item: SWRCB must report additional equivalency projects to www.Sam.gov, as specified in the "Future Reporting Required" column provided in the table above, after additional DW Emerging Contaminant and Lead Service Line Replacement assistance agreements are identified.

CWSRF and DWSRF Annual Reports

In accordance with its operating agreement with EPA, SWRCB is required to submit Annual Reports to EPA within 120 days from the close of the state fiscal year. Drafts of the SWRCB's Annual Reports for SFY 2024 were submitted to EPA on December 13, 2024. Final versions of the Annual Reports were provided on July 22, 2025, nearly 9 months from the expected date.

EPA appreciates that SWRCB provided project and cash draw files for EPA's review in advance of finalizing the Annual Reports. EPA also acknowledges that the State did not receive audited financial statements until December 2024, contributing to the Annual Reports' delay. State staff also took time to restructure the reports to streamline their preparation for future years. At the on-site review, SWRCB noted that audited financial statements should be available by mid-November moving forward. EPA expects these efforts will position SWRCB to submit more timely Annual Reports during the next state fiscal year reporting cycle.

Required Action Item: As discussed at the exit conference, EPA and SWRCB agreed to interim milestones leading to delivery of the final SFY 2024-2025 Annual Reports. The interim milestones and deadlines are as follows. SWRCB will provide:

- Lists of projects executed between July 1, 2024-June 30, 2025, by October 1, 2025
- All reporting to OWSRF for SFY 2024-2025 by October 1, 2025
- Draft Annual Reports by December 31, 2025
- Final Annual Reports by March 30, 2026

D. Additional Subsidization

Since 2010, Congress has annually authorized state programs to provide additional subsidization in the form of principal forgiveness, negative interest rates, or subgrants. SWRCB provides additional subsidy in the form of principal forgiveness. Each IUP must identify the amount the state plans to use between

the minimum and maximum amounts authorized. States are required to provide the minimum additional subsidy amount in executed loans before the seven-year grant period expires to achieve compliance. SWRCB has consistently set goals in its IUPs to provide the maximum amount of additional subsidy allowed using the State's affordability criteria. SWCRB provided detailed commitment and disbursement information on additional subsidy in the SFY 2023-2024 Annual Reports.

In 2013, EPA established a goal that states should have at least the minimum additional subsidy amount in executed loans within the year following the appropriation. SWRCB made progress towards, but did not meet, this two-year goal in SFY 2024 for its FFY 2022 DW IJIA Emerging Contaminant and Lead Service Line Replacement grants. During the on-site visit, EPA and SWRCB discussed the State's plans to in commit additional EC and LSLR projects in SFY 2025. The table below shows SWRCB's progress towards committing the additional subsidy in loans for each open capitalization grant.

Additional Subsidy			
Grant Year and Program	Minimum	Maximum	Committed as of June 30, 2024
2022 DW Base	\$16,072,940	\$30,291,310	\$29,188,200
2022 DW IJIA General Supplemental	\$77,779,170	\$77,779,170	\$70,736,243
2022 DW IJIA EC	\$73,336,000	\$73,336,000	\$73,336,000
2022 DW IJIA LSLR	\$122,552,430	\$122,552,430	\$1,018,155
2023 DW Base	\$14,087,580	\$26,549,670	\$0
2023 DW IJIA General Supplemental	\$111,303,500	\$111,303,500	\$55,984,868
2023 DW IJIA EC	\$76,204,720	\$76,204,720	\$22,726,848
2023 DW IJIA LSLR	\$14,038,500	\$14,038,500	\$0
2023 CW Base	10,729,800	21,459,600	\$10,275,492
2023 CW IJIA General Supplemental	\$73,046,750	\$73,046,750	\$24,486,748
*Additional subsidy requirements were met in prior years for grants not shown.			

Required Action Item: As of June 30, 2024, SWRCB has not committed the minimum additional subsidy required for the following grants: FFY 2022 DW IJIA General Supplemental, FFY 2022 DW IJIA LSLR, and all FFY 2023 grants. SWRCB must detail necessary milestones in its Annual Reports towards achieving compliance for these grants if the State cannot commit the minimum required by the next state fiscal year reporting cycle.

In 2021, EPA revised its additional subsidy policy¹⁰ such that capitalization grants may be closed even if the state has not yet disbursed its minimum additional subsidy. States should have at least the minimum additional subsidy amount within executed loans before closing a capitalization grant. During the review, EPA determined that SWRCB is complying with this additional subsidy requirement.

E. Green Project Reserve

¹⁰ Consistent with the closeout requirements of 2 CFR 200 and 1500 and EPA Order 5700.6A2, Policy on Compliance, Review and Monitoring, the capitalization grant may be closed out before the state meets the required minimum additional subsidization requirement (i.e., before those funds have been disbursed to projects). This is noted in the November 4, 2021, memorandum, "Policy Change Regarding Additional Subsidization and Closeout of SRF Capitalization Grants".

The Green Project Reserve (GPR) provision states that to the extent that there are sufficient eligible project applications, at least 10 percent of the CW capitalization grant shall be used for projects or components of projects that address energy efficiency, water efficiency, green infrastructure, or are environmentally innovative projects. The GPR requirement for a given year's appropriation is met when the minimum GPR funds required are committed in executed assistance agreements. California's GPR requirement totaled \$20,272,400 for the FFY 2023 base SRF and IIJA General Supplemental grants. As documented in its Annual Report, SWRCB failed to meet this requirement by executing only \$4,992,500 million in GPR projects in SFY 2024. SWRCB has historically far exceeded GPR requirements and expects to exceed GPR requirements in SFY 2025.

F. Small Drinking Water Systems Assistance

The SDWA and the EPA regulations at 40 CFR 35.3525(a)(5) require a state to provide at least 15% of its available funds each year from the DWSRF towards providing loan assistance to small drinking water systems. A small system is defined as a drinking water system that serves 10,000 or fewer people. A state that provides more than 15% of its available funds in one year may credit the excess toward the requirement in future years. The IUP must demonstrate how a state will meet this requirement and the state's annual reporting should include how this requirement was met. In SFY 2024, SWRCB fulfilled this requirement by providing 22% of its assistance to small drinking water systems. Of the 30 loans executed, 23 were to small systems totaling \$58,242,211.

Financial Review

A. Timely and Expeditious Use of Funds

A state must agree to commit and expend all funds as efficiently as possible and in an expeditious and timely manner. Timely and expeditious use of the funds is critical to maximize the effectiveness of SRF assets and meet the public health needs of the state per 40 CFR § 35.3550(l). Both of California's SRF programs have done an exceptional job in monitoring the SRFs' cash balances and predicting and planning for the funds' ability to commit new projects. In doing so SWRCB can reliably commit over 100% of its available DW and CW funds through executed funding agreements.

To ensure the timely and expeditious use of the funds, EPA SRF program policy encourages states to limit the number of open CW and DW SRF grants to two for each base or IIJA program. The following table lists the capitalization grants covered by the SFY 2024 annual review. The unliquidated obligation (ULO) is the amount of funds remaining on the grant as of June 30, 2024.

Open Capitalization Grants as of June 30, 2024			
Grant	Grant Number	Amount	ULO
FY19 DW Base	FS98934919	\$97,984,000	\$1,609,688.57
FY20 DW Base	FS98934920	\$97,134,000	\$0.00
FY21 DW Base	FS98934921	\$97,047,000	\$279,456.63
FY22 DW Base	FS98934922	\$61,819,000	\$10,082,028.84
FY23 DW Base	FS98934923	\$54,183,000	\$32,305,173.53
FY22 DW IIJA General Supplemental	4D98T47501	\$158,733,000	\$85,160,660.93
FY23 DW IIJA General Supplemental	4D98T77601	\$227,150,000	\$226,982,854.81

FY22 DW IIJA Emerging Contaminants	4E98T47401	\$73,336,000	\$73,285,834.00
FY23 DW IIJA Emerging Contaminants	4E98T77701	\$97,636,000	\$97,636,000.00
FY22 DW IIJA Lead Service Line	4L98T47701	\$250,107,000	\$248,834,313.90
FY23 DW IIJA Lead Service Line	4L98T77801	\$28,650,000	\$20,341,500.00
DW ASADRA	FS98T10701	\$51,974,515	\$51,974,515.00
FY20 CW Base	CS06000120	\$113,653,000	\$0.00
FY21 CW Base	CS06000121	\$113,637,000	\$0.00
FY22 CW Base	CS06000122	\$82,753,000	\$1,595,258.90
FY23 CW Base	CS06000123	\$53,649,000	\$16,295,774.33
FY22 CW IIJA General Supplemental	4C98T48001	\$127,290,000	\$19,588,387.68
FY23 CW IIJA General Supplemental	4C98T77901	\$149,075,000	\$149,075,000.00

During the review period, the State drew down two of its older (FFY 2020 and 2021) base CW grants. As of the writing of this PER, California also fully drew down its FFY 2022 base CW and CW IIJA General Supplemental grants and its FFY 2023 CW base and CW IIJA General Supplemental grants had only 2% of funds unobligated.

The State had four open DW base grants with ULO during the review period. SWRCB completed a request to EPA to move remaining set-aside funds to the loan fund for its FFY 2020 base grant and drew down all ULO in April 2024. As of the writing of this PER, the State had 0% ULO on its FFY 2019 and FFY 2021 grants, and its FFY 2022 base grant had only 0.1% of funds remaining. The FFY 2022 and FFY 2023 DW BIL General Supplemental grants had 11% and 88% of funds unobligated, respectively. The State's FFY 2022 and 2023 IIJA Emerging Contaminant and Lead Service Line Replacement grants remain largely unobligated. For these two funding sources, EPA has observed a high percentage of ULO across the country as states build their project pipelines within the funding's narrower eligibilities.

EPA acknowledges the State's efforts to reduce the number of open grants and commends SWRCB for significantly drawing down grants since the close of SFY 2024 to present. EPA understands that SWRCB must first prioritize and liquidate state match funds provided by the General Fund, as well as revenue bond proceeds with shorter spending requirements. During the on-site review the State shared its plans to move additional set-asides to be used for projects, further enabling draw down of the FFY 2022 DW base and DW IIJA General Supplemental grants.

Recommended Action Item: The State should prioritize draw down on all FFY 2022 grants. EPA expects SWRCB to submit requests to move unused local assistance set-aside funds to the loan fund for FFY 2022 DW grants no later than Fall 2025, as discussed during the on-site review.

ASADRA

On June 6, 2019, the "Additional Supplemental Appropriations for Disaster Relief Act, 2019" (ASADRA) was signed into law. California was allotted \$41,903,000 to its DWSRF in FFY 2020 and \$183,000 to its CWSRF in FFY 2021 to carry out the goals of the ASADRA capitalization grant. California transferred its \$183,000 CWSRF allocation to the DWSRF program to maximize funds available to address extensive wildfire damage experienced by public water systems throughout the State. California was subsequently awarded an additional \$4,253,000 through the FFY 2021 reallocation process.

Committing the majority of ASADRA funds was an action item in last year’s PER, which the SWRCB completed in December 2024. During the annual review, EPA and SWRCB discussed the State’s ongoing work with prospective ASADRA recipients. The grant’s budget period ends on June 30, 2027. Considering the significant delays in the State’s commitment of ASADRA funding given the grant’s narrow eligibilities, SWRCB may choose to request that EPA extend the grant period beyond the 7-year limit¹¹ in 2026. EPA and SWRCB discussed implications for ASADRA recipients should an extension not be granted.

Required Action Item: The remainder of ASADRA funds should be committed no later than June 2026.

B. Financial Performance Analysis

EPA evaluates SRF financial performance indicators annually to measure the progress of the SRF programs. These financial indicators, in addition to audited financial statements and the recommended GAO indicators, serve as tools to assess the State’s financial management practices and ability to ensure the perpetuity of the SRFs. EPA has reviewed these financial indicators to evaluate SWRCB’s performance in SFY 2024 as compared to the last four years and national averages. In general, these indicators are used as a suite and not individually. EPA considers all the indicators together to gain a comprehensive picture of the State’s program.

CWSRF

Fund Utilization Rate (Pace)

This indicator shows how quickly funds are committed to finance CWSRF projects. This is one of the most significant metrics EPA utilizes to evaluate the effectiveness with which the CWSRF is being managed. The table below shows California’s performance against the national average. Please note that historical values can change slightly from prior PERs because of data clean-up efforts in OWSRF.

Table 1.

CWSRF Fund Utilization (NIMS Line 309, Cumulative)	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
National (%)	97	97	99	99	99
California (%)	112.3	109.1	122	116.4	109.2

California’s CW cumulative fund utilization rate for SFY 2024 was 109.2%, reflecting a 7% decline from SFY 2023. This drop in pace can be attributed to a large \$565 million assistance agreement to Sacramento Regional from 2017, which had funding reduced by \$297 million in SFY 2024. This large decrease relative to the \$50 million in new CW assistance issued caused the amount of loans to be negative \$244 million for SFY 2024. Although this indicator declined in SFY 2024, CA’s pace continues to exceed the national average of 99% and represents the 7th highest pace in the CW program nationally. The State’s pace reflects its use of cash flow modeling to inform lending capacity decisions and its ability

¹¹ Project period limitations are detailed in Grants Policy Issuance 11-01, “Amended Grants Policy Issuance (GPI) 11-01 – Managing Unliquidated Obligations and Ensuring Progress under EPA Assistance Agreements”.

to anticipate disbursement needs at any given time. It also indicates a strong and steady project pipeline supported by adequate staffing.

Cumulative Disbursement as a Percent of Executed Loans

While the fund utilization indicator reflects the California CWSRF's ability to commit funds to projects, disbursement as a percent of assistance provided reflects how quickly the California CWSRF disburses the committed funds (i.e., federal cap grants, state match, and repayments) to active projects. Full fund utilization coupled with timely disbursement indicates a well-functioning SRF program. These taken together maximize environmental benefits and protect public health.

This metric increased for CA CW in SFY 2024 by over 7%, from 76.4% to 83.6%. Of \$14.4 billion in cumulative assistance provided, 83.6% of executed agreements have been disbursed. As shown in Table 2, this indicator for the State's CWSRF has historically fallen below the national average. Due to notably high annual disbursements exceeding \$850 million in SFY 2024, California's CWSRF program improved this metric considerably in SFY 2024.

Table 2.

CWSRF Disbursements as a Percent of Assistance Provided (NIMS Line 311, Cumulative)	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
National (%)	90	90	89	88	88
California (%)	80.2	82.4	75.1	76.4	83.6

As discussed in the PER for SFY 2023, the Division of Financial Assistance oftentimes executes assistance agreements prior to projects going out to bid. Construction typically begins within 6 months of loan signing. The lag between loan execution and when a project's first claims are submitted, as well as the State's priority in disbursing other funding sources before the federal capitalization grants, are likely the key factors pushing this metric to fall below the national average. As in the past, another driver for the lower percentage is the State's high cumulative assistance provided. CA CW's ratio of cash-to-average annual disbursements (discussed in the next section) further indicates that SWRCB is efficiently disbursing funds and managing cash flows. EPA commends SWRCB for improving this metric in SFY 2024 by achieving substantially higher annual disbursements than the prior year.

Undisbursed Funds to Average Disbursement (Years to Disburse)

This indicator takes the sum of all undisbursed funds that a state has and divides it by the three-year average annual disbursement figure. It is a leading indicator to gauge how effectively SRF funds are revolving through the program and approximates the number of years it would take to fully disburse any undisbursed funds based on a state's typical annual disbursement. A high number indicates a state has significant cash on hand and may not be disbursing funds in a timely manner. A memorandum issued by EPA Headquarters on January 31, 2024, titled "Maximizing Water Quality and Public Health Benefits by Ensuring Expeditious and Timely Use of All State Revolving Fund Resources" identified 2 years as adequate performance for this indicator.

California’s CWSRF undisbursed funds to average disbursements ratio has historically exhibited better performance than the national average, as shown in Table 3.

Table 3.

CWSRF Undisbursed Funds to Average Disbursements (Years to Disburse) (NIMS Line 311.1)	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
National	2.9	3.0	2.9	3.3	3.2
California	1.6	1.9	1.6	2.5	1.6

The State’s CW undisbursed funds to average disbursements ratio for SFY 2024 was 1.6 years, representing an improvement from 2.5 in SFY 2023. This result is below the national average, surpassing the 2-year goal identified in the “timely and expeditious” memo. California disbursed over \$850 million to pay reimbursement claims during the review period, decreasing this ratio significantly. The State expects this high level of disbursement to continue as projects signed in SFY 2022, totalling over \$2 billion in CW assistance, to continue construction activities and submit reimbursement claims.

Total Net

This indicator seeks to gauge if an SRF program is growing. Programs with little to no Total Net are not growing and funds are not revolving. The five-year trend for this metric is shown in Table 4.

Table 4.

CWSRF Total Net	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
California	\$556,811,296	\$352,216,838	\$412,585,600	\$114,740,002	\$117,213,962

California’s CWSRF program had a total net of \$117.2 million in SFY 2024, an increase of \$3 million from SFY 2023 due to modestly higher loan principal repayments, loan interest payments, and interest earnings on investments, the sum of which exceeded higher annual interest expenses from the previous year. As discussed last year with SWRCB, the higher total nets observed in 2020 through 2022 reflect years when the State experienced a substantial number of early pre-payments during the historic low-interest rate environment experienced throughout the Covid-19 pandemic. Total net starting in 2023 reflects more typical, lower pre-payment conditions with annual principal repayments closer to the \$200 million range. EPA will monitor this indicator as the State continues to leverage to ensure it stays above \$0.

Net Interest Margin

This indicator measures net earnings the SRF is generating from its total assets through loans and investments, after accounting for the interest expenses associated with match and leveraged bonds. Simply stated, it is a measurement comparing the net interest income generated from the SRF loans

with the outgoing interest it pays to bondholders. This indicator seeks to gauge if an SRF program is growing through interest earnings. A negative percentage indicates that a state's costs to leverage exceed its interest earnings to pay for the expense.

Discussions about net interest margin stemming from the previous two years' annual reviews led EPA Region 9 to calculate this metric three ways: 1) using OWSRF data, with a new data line developed by EPA Headquarters in SFY 2024 for Estimated Total Assets, 2) on a cash basis using the Statements of Cash Flows from the audited financials in addition to Total Assets based on accruals, and 3) using numbers based on accruals as provided by the Statements of Revenues, Expenses and Changes in Net Position from the audited financials. The results from calculating net interest margin using these three approaches is shown in Table 5.

Table 5.

CWSRF Net Interest Margin, as calculated using:	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
OWSRF	-0.043%	-0.147%	-0.084%	-0.017%	-0.082%
Statements of Cash Flows	0.196%	-0.009%	0.019%	-0.080%	0.07%
Statements of Revenues, Expenses, and Changes in Net Position	0.800%	0.592%	0.497%	0.588%	0.072%

California's net interest margin for the CWSRF program in SFY 2024 is either positive or negative depending on which approach is used. It is very slightly negative: -0.082% using OWSRF data or 0.072% using accruals-only equation terms. EPA and SWRCB discussed the merits of each approach:

- OWSRF data does not include construction period interest (CPI), otherwise known as capitalized interest. CPI is the interest earned during the non-repayment period and is accrued each year. It is rolled into the principal balance of the loan and is repaid over the loan term after the recipient starts repayment.
- The Statement of Cash Flows accounts for CPI as cash received from interest on loans. However, Total Assets are only provided on an accruals' basis of accounting, creating an apples-to-oranges comparison.
- Financial numbers provided by the Statements of Revenues, Expenses, and Changes in Net Position, including Total Assets, account for CPI, and are all calculated using the same accruals basis of accounting.

The net interest margin results in SFY 2024 skew close to zero percent, indicating that the State's interest earnings hovered very close to its interest expenses. SWRCB expects interest earnings to increase moving forward as its current rates, set by state statute to be half of California's General Obligation bond rate, start to climb. During the low-interest rate environment of the Covid-19 pandemic, SWRCB's interest rates ranged from 0.8 to 1.5%, while its revenue bond interest costs exceeded 3%. A net interest margin result of 0% reflects that the State was able to provide subsidized assistance to communities with historically low interest rates without negatively impacting the corpus of the CW fund. EPA will continue to monitor this indicator to ensure that California's CWSRF leveraging interest expenses do not exceed the fund's interest earnings by a large margin.

DWSRF

Fund Utilization Rate (Pace)

This indicator shows how quickly funds are committed to finance DWSRF projects. This is one of the most significant metrics EPA utilizes to evaluate the effectiveness with which the DWSRF is being managed. Table 6 shows California's performance against the national average. Please note that historical values may have changed slightly from prior PER's due to data clean-up efforts in OWSRF.

Table 6.

DWSRF Fund Utilization (NIMS Line 419, Cumulative)	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
National (%)	96	96	97	94	91
California (%)	109.8	106.9	124.3	108.5	104.3

California's DW cumulative fund utilization for SFY 2024 was 104.3%, reflecting a 4% decline from SFY 2023. This drop in pace can be attributed to the growing balance of uncommitted IJIA grant funds from FFY 2022 and FFY 2023, particularly from the Emerging Contaminant and Lead Service Line Replacement funding sources. Although this indicator declined in SFY 2024, CA's pace continues to far exceed the national average of 91% and represents the 7th highest pace in the DW program in the country. This indicates that SWRCB is anticipating funds received and planning for their use prior to having them deposited. SWRCB has demonstrated a commendable capacity to properly manage the flow of funds over the life of the program.

Disbursements as a Percentage of Assistance Provided – Based on Cumulative Activity

While the fund utilization indicator reflects the California DWSRF's ability to commit funds to projects, disbursement as a percent of assistance provided reflects how quickly the California DWSRF disburses the committed funds to active projects. Full fund utilization coupled with timely disbursement indicates a well-functioning SRF program. These taken together maximize environmental benefits and protect public health.

This metric increased for CA DWSRF by over 2% in SFY 2024, from 75.8% to 78%. Of \$4.9 billion in cumulative assistance provided, 78% of executed agreements have disbursed. As shown in Table 7 and similar to the State's CWSRF, California DWSRF disbursements as a percent of executed loans have historically been below the national average.

Table 7.

DWSRF Disbursements as a Percent of Assistance Provided (NIMS Line 420, Cumulative)	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
National (%)	88	87	85	85	84
California (%)	82.9	84.4	72.5	75.8	78

SWRCB and EPA discussed multiple reasons why the State's results have remained below the national average for the past five years:

- Many SRF projects in California are co-funded with state sources of funding that have stricter spending deadlines than the federal funds. As such, SWRCB prioritizes disbursement of state funding sources prior to the SRF grants.
- SWRCB oftentimes executes assistance agreements prior to projects going out to bid. The expectation is that construction begins within 6 months of loan signing. The lag between loan execution and when a project's first claims are submitted may be a contributing factor.
- As discussed last year and for this indicator's CW result, a primary driver behind the lower number is the State's high cumulative assistance provided. The drop in this metric from SFY 2021 and SFY 2022 was due to the state's commitment of over \$900 million in assistance in a single year.
- The national average reflects the performance of leveraged and non-leveraged states.

EPA expects this figure to improve as recipients that signed assistance agreements in SFY 2022 begin submitting reimbursement claims. Given the State's higher cash-to-average disbursements ratio in the DWSRF program, EPA will continue to monitor this metric.

Undisbursed Funds to Average Disbursement (Years to Disburse)

This indicator looks at all undisbursed funds that a state has and divides it by the prior three-year average annual disbursement figure. It is a leading indicator to gauge how effectively SRF funds are revolving through the program and approximates the number of years it would take to fully disburse any undisbursed funds based on the state's typical annual disbursement. A high number indicates a state has significant cash on hand and may not be revolving funds in a timely manner. A memorandum issued by EPA Headquarters on January 31, 2024, titled "Maximizing Water Quality and Public Health Benefits by Ensuring Expedient and Timely Use of All State Revolving Fund Resources" identified 2 years as adequate performance for this indicator.

California's DWSRF undisbursed funds to average disbursements ratio has historically exhibited better performance than the national average, as shown in Table 9. Compared nationally, California's DWSRF has kept less cash on hand than other states.

Table 9.

DWSRF Undisbursed Funds to Average Disbursements (Years to Disburse) (NIMS Line 420.1)	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
National	2.7	3	3	3.8	4.7
California	1.1	1.4	1.4	3.2	3.5

California DWSRF's disbursement ratio increased by a factor of 0.3 from 3.2 in SFY 2023 to 3.5 years of cash on hand in SFY 2024. The national average increased sharply to 4.7. This metric's increase for California was due to the increase in Cumulative Funds Available resulting from the second year of IJIA capitalization grants. Between 2023 and 2024, California's undisbursed funds grew from \$764 million to \$882 million. The DWSRF program's annual disbursement level improved by over \$64 million during the year in review with close to \$300 million in SFY 2024 disbursements, increasing the 3-year disbursements average to \$251.8 million. While SWRCB disbursed more to DW projects in SFY 2024 than

in 2023, its Cumulative Disbursements were not enough to outpace the amount of Cumulative Funds Available with the addition of the supplemental IIJA funding. EPA expects this ratio to decrease once the DWSRF program commits additional emerging contaminant and lead service line replacement projects and claims for such projects begin disbursement. As noted in this PER, EPA expects to discuss the State’s consideration of voluntarily de-obligating unused IIJA LSLR funding no later than January 2026. EPA will continue to monitor this metric given its result over the last two years.

Set-Aside Spending Rate

This indicator gauges the pace at which a state is spending its set-aside funds across base SRF and IIJA supplemental DW grants. The five-year trend is shown in Table 8. In SFY 2024, California’s DWSRF set-aside spending rate was 65%, down almost 7% from SFY 2023 and substantially below the national average of 83%. Cumulative set-aside expenses were higher during the review period than the prior year (\$379 million compared to \$346.2 million). However, the total dollar amount of set-asides awarded increased significantly, by \$95 million, due to increased set-asides provided by the IIJA capitalization grants. This increase in set-asides awarded caused the overall spending rate to drop.

Table 8.

DWSRF Set-Aside Spending Rate (NIMS Line 424, Cumulative)	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
National (%)	92	94	96	89	83
California (%)	92.2	92.3	92.2	72.2	65.3

To better assess the State’s set-aside usage, EPA reviewed set-aside unliquidated obligations (ULOs) by separating the base SRF from the IIJA set-asides. Approximately 6.5% of base DW set-asides and 90% of IIJA set-asides awarded to California were ULOs at the end of the review period (July 1, 2024). Nationally, these figures were 3.8% and 85.2%, respectively. EPA recognizes SWRCB’s efforts to reduce set-aside ULOs and notes that the State has already made progress in making reductions, down to 5.7% for base and 83.5% for IIJA set-asides as of July 1, 2025. During the on-site review, DFA relayed the State’s plans to address high set-aside ULOs by working in conjunction with the Division of Drinking Water to assess needs and move unused 10% local assistance set-aside dollars back to the loan fund for the FFY 2022 base DWSRF and IIJA General Supplemental grants.

Recommended Action Item: SWRCB will submit requests to move unused local assistance set-aside funds to the loan fund for FFY 2022 grants no later than Fall 2025, as discussed during the on-site review.

Total Net

This indicator seeks to gauge if an SRF program is growing. Programs with little to no Total Net are not growing and funds are not revolving. The five-year trend for this metric is shown in Table 10.

Table 10.

DWSRF Total Net	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024

California	\$122,367,646.68	\$173,893,585.62	\$113,152,624	\$125,710,583	\$119,504,085
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California's DWSRF program had a total net of \$119.5 million in SFY 2024, a decrease of \$6.2 million from SFY 2023. The decrease is due to approximately \$6 million less in loan principal repayments received, in addition to relatively similar interest payments on loans, interest earnings on investments, interest paid on bonds and leveraged bond principal repaid from the prior year. The loan principal repayments received of \$97 million in SFY 2024, albeit lower than in SFY 2023, are within the normal range of what the State expects. Total net for the DWSRF program is growing slowly and remains higher than it was in SFY 2022. EPA will continue to monitor this indicator to ensure it stays above \$0.

Net Interest Margin

This indicator measures net earnings the SRF is generating from its total assets through loans and investments, after accounting for the interest expenses associated with match and leveraged bonds. Simply stated, it is a measurement comparing the net interest income generated from the SRF loans, with the outgoing interest it pays to bondholders. This indicator seeks to gauge if an SRF program is growing through interest earnings. A negative percentage indicates that what it costs a state to leverage is more than what it is earning in interest to pay for the expense.

Discussions about net interest margin stemming from the previous year's annual review for the CWSRF program led EPA Region 9 to calculate this metric three ways. The results from calculating net interest margin using these three approaches is shown in in Table 11.

Table 11.

DWSRF Net Interest Margin, as calculated using:	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
NIMS	1.30%	1.11%	1.11%	1.12%	1.03%
Statements of Cash Flows	1.37%	1.11%	1.11%	1.24%	1.24%
Statements of Revenues, Expenses, and Changes in Net Position	1.37%	1.17%	1.18%	1.30%	1.44%

California's net interest margin for the DWSRF program in SFY 2024 was over 1% regardless of the approach used for the calculation, representing either an insignificant increase or decrease from SFY 2023. As the DWSRF program has not recently issued revenue bonds as in the CWSRF program, EPA expects this metric to hold steady unless the State leverages in the future.

C. Compliance with Audit Requirements

On December 20, 2024, the State's independent auditor issued the CWSRF and DWSRF program audited financial statements for SFY 2024. The audit included an unmodified opinion on the financial statements, indicating that they are fairly stated in accordance with generally accepted accounting principles. On the same day, the independent auditors issued the Single Audit which included reports on internal controls and compliance for each major program. There were no findings or recommendations in the audit reports.

D. Transaction Testing

Cash draws from the U.S. Treasury for SRF expenses must be based on eligible incurred project or set-aside costs. Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements is considered an improper payment. In response to the Improper Payments Elimination and Recovery Act of 2012, the EPA Office of the Chief Financial Officer directed that the SRFs be subjected to testing of a random selection of SRF transactions to develop a national estimate of improper payments from these programs. For this review, EPA's Office of Water selected 10 DWSRF and 17 CWSRF program cash draws to test for the state fiscal year ending June 30, 2024, and arranged for a contractor to review the supporting documentation. The transactions selected reflected all appropriations for which the State made draws during the review period.

SFY 2024 Cash Draw Transactions Reviewed				
Grant Number	Date	Draw Amount	Improper Payment	Paid w/in 30 days of date acceptable?
4L98T47701	2024-05-07	\$232,452.06	\$0.00	N/A (set-asides)
4E98T47401	2024-09-10	\$1,994.75	\$0.00	N/A (set-asides)
FS98934921	2024-05-28	\$748,822.12	\$0.00	N/A (set-asides)
4D98T47501	2024-04-25	\$3,149,476.00	\$0.00	No
4D98T47501	2024-01-26	\$2,082,386.00	\$55,295.80	No
FS98934923	2024-04-25	\$11,327,503.00	\$0.00	No
FS98934923	2024-04-25	\$5,423,807.61	\$0.00	No
FS98934921	2024-01-19	\$807,537.86	\$0.00	N/A (set-asides)
FS98934921	2024-01-19	\$896,966.32	\$0.00	N/A (set-asides)
4D98T47501	2024-05-23	\$(1,217,159.00)	\$0.00	N/A
CS06000123	2024-05-30	\$18,720.00	\$0.00	Yes
CS06000121	2023-10-02	\$46,284.00	\$222.00	Yes
4C98T48001	2024-05-28	\$67,492.30	\$0.00	Yes
CS06000122	2024-02-28	\$203,234.38	\$0.00	Yes
4C98T48001	2024-05-16	\$19,668,923.00	\$0.00	Yes
CS06000121	2023-10-16	\$3,954,122.00	\$0.00	No
CS06000121	2023-10-02	\$37,618,000.00	\$0.00	No
CS06000123	2024-05-16	\$7,073,617.00	\$0.00	No
CS06000122	2023-11-09	\$40,770,473.00	\$0.00	No
4C98T48001	2024-05-30	\$10,500,431.00	\$0.00	Yes
4C98T48001	2024-05-23	\$5,644,152.00	\$0.00	No
CS06000121	2023-10-16	\$3,828,206.00	\$0.00	Yes
4C98T48001	2024-05-16	\$4,409,311.00	\$0.00	Yes
CS06000123	2024-04-25	\$3,304,644.00	\$0.00	Yes
4C98T48001	2024-05-02	\$9,361,002.00	\$0.00	Yes
CS06000123	2024-03-21	\$3,279,520.00	\$0.00	No
4C98T48001	2024-08-02	\$4,716,624.09	\$0.00	No
Total		\$117,918,542.49	\$222.00	

Improper Payments

One CW improper payment from grant CS06000121 totalling \$222,000 was identified. This was an overpayment resulting from an invoice adjustment for engineering services. As the overpayment was made to an active loan, the State will correct for it in the next disbursement request by reducing disbursement by \$222.00. All other invoices reviewed for these transactions were found to be properly made for eligible expenditures and were appropriately recorded in the SWRCB accounting records.

One DW improper payment from grant 4D98T47501 totalling \$55,295.80 was identified. This was a prepayment for an eligible expense (e.g., a reimbursement claim that was paid early). Since the work associated with this prepayment was completed and eligible EPA considered the recovery date the date of the invoice and the improper payment resolved.

Negative Draws

A negative cash draw occurs when the state returns money back onto its capitalization grant. The EPA reviews all negative draws to ensure they are eligible and proper. During SFY 2024, the SWRCB made one negative cash draw from grant 4D98T47501 for \$1,217,159 on 5/23/2024. EPA discussed this negative draw with the State and learned that SWRCB intended to draw from the DW base grant for the same year and instead drew from the DW General Supplemental grant. The negative draw was an expenditure adjustment to correct the bank error. The draw was eligible and was not improper.

Programmatic and Financial Risks

EPA's annual review included an insightful discussion with SWRCB regarding the programmatic and financial risks facing the programs, including but not limited to uncertain future federal capitalization and barriers created by federal requirements – specifically, BABA deterring large borrowers from pursuing funding given the high cost of compliance relative to SRF interest savings; and federal cross-cutting requirements for disadvantaged communities seeking emerging contaminant and lead service line funding, considering that those sources carry equivalency requirements for all projects receiving funding. Specific to California, SWRCB expects historic state sources of principal forgiveness to sunset in the near term. These sources (\$1.1 billion General Fund appropriations, legacy General Obligation Bond measures Propositions 1 and 68) have enabled the State to consistently fund small, DAC drinking water and wastewater projects free from the challenges associated with meeting federal SRF requirements. Now substantially committed, the State anticipates it will have less capacity to provide 100% principal forgiveness and may need to shift to 0% or low interest loans in the coming years.

In SFY 2024, the State began collecting administrative and small community grant fees for the first time in the DWSRF program to mitigate for the potential of less state and federal funds. Fee revenue may be used to offset reductions in set-aside funds if lower federal capitalization continues to impact the base DWSRF program. However, the State's forecasting shows that fees, annually projected to total \$3-5 million, will not fully compensate for significant reductions in the set-asides and principal forgiveness. Considering that the State's interest rates are tied to half of the State General Obligation Bond rate in statute, and its reliance on the DW set-asides to pay for administrative costs and provide technical assistance to small, DAC communities, EPA commends SWRCB for beginning to collect fees as a source of revenue that would safeguard these important activities into the future. EPA recognizes the State's work to prepare for a variety of scenarios through its annual capacity analysis and applauds SWRCB for

communicating regularly with stakeholders through the Stakeholder Advisory Group about how different outcomes could impact the programs.

An additional area of concern EPA and SWRCB discussed at the on-site review is the lack of lead service line replacement projects in California. In SFY 2024, SWRCB did not execute any assistance for lead projects in spite of tailored outreach to solicit applications and over \$278 million in total funds available from its FFY 2022 and 2023 IIJA LSLR grants. EPA and SWRCB discussed the option for the State to return lead funding to EPA, as detailed in the January 2025 memorandum titled, “Process for Voluntary De-obligations of Infrastructure Investment and Jobs Act Drinking Water State Revolving Fund Lead Service Line Replacement Funds.” Funds that are voluntarily de-obligated will undergo the reallocation process to tackle lead elsewhere in the country.

Required Action Item: By January 2026, EPA asks SWRCB to thoroughly evaluate its need for IIJA LSLR funding, encompassing both its project pipeline and set-aside activities, and meet with EPA to continue the discussion regarding potential voluntary de-obligation.

Status of Action Items from Prior PERs

The purpose of a PER is to document findings, observations, and recommendations. PERs also serve to track and monitor the ongoing performance of SRF programs by acting as a reference point for which progress on prior findings and recommendations can be checked and verified. This section serves to summarize the status of follow-up items from the last PER dated September 24, 2024.

SWRCB made progress on or completed the follow-up actions that EPA identified with regards to 1) notifying EPA of its delayed submission of the SFY 2024 Annual Reports, 2) identifying additional equivalency projects in Sam.gov for FFY 2022 grants to meet FFATA requirements, 3) committing the majority of ASADRA funds before June 2025, and 4) providing timely reporting of executed IIJA emerging contaminant and lead assistance agreements to the SRF Data System to the extent that projects were signed. Regarding additional subsidization, California revised its presentation of its commitment and disbursement of principal forgiveness authority in the SFY 2024 Annual Reports to reflect assignments at the individual per-grant basis. Previously, the State provided this information on a rolling, cumulative basis. This new way of representing the State’s usage of additional subsidization changed EPA’s understanding of the SWRCB’s unused principal forgiveness authority to date, as discussed in last year’s PER. EPA’s new understanding is reflected in this year’s action item with regard to additional subsidization.

Summary of Action Items

The action items identified in this PER are generally intended to address isolated or minor deficiencies, small one-time errors, or suggest best practices and efficiencies that would strengthen the programs. Findings, by contrast, are meant to address major, significant issues that place the state at risk for non-compliance or misuse of funds. EPA made no findings for the review period.

In light of SWRCB’s SRF program performance and activities conducted during SFY 2024, EPA has identified the following required or recommended action items for SWRCB to address accordingly:

Required:

1. **Equivalency projects:** SWRCB must report additional equivalency projects to www.Sam.gov as specified in the FFATA section of this PER, after additional DW Emerging Contaminant and Lead Service Line Replacement assistance agreements are identified.
2. **Additional subsidy:** As of June 30, 2024, SWRCB has not committed the minimum additional subsidy required for the following grants: FFY 2022 DW IIJA General Supplemental, FFY 2022 DW IIJA LSLR, and all FFY 2023 grants. SWRCB must detail necessary milestones in its Annual Reports towards achieving compliance for these grants if the State cannot commit the minimum required by the next state fiscal year reporting cycle.
3. **Annual Reports:** As discussed at the exit conference, EPA and SWRCB agreed to interim milestones leading to delivery of the final SFY 2024-2025 Annual Reports. The interim milestones and deadlines are as follows. SWRCB will provide:
 - a. Lists of projects executed between July 1, 2024-June 30, 2025, by November 1, 2025
 - b. All reporting to OWSRF for SFY 2024-2025 by November 1, 2025
 - c. Draft Annual Reports by December 31, 2025
 - d. Final Annual Reports by March 30, 2026
4. **ASADRA:** The remainder of ASADRA funds should be committed no later than June 2026.
5. **Uncommitted lead funds:** By January 2026, EPA asks SWRCB to thoroughly evaluate its needs for IIJA LSLR funding, encompassing both its project pipeline and set-aside activities, and meet with EPA to continue the discussion on voluntary de-obligation.

Recommended:

1. **Set-aside ULOs:** The State should prioritize draw down on all FFY 2022 grants. EPA expects SWRCB to submit requests to move unused local assistance set-aside funds to the loan fund for FFY 2022 DW grants no later than Fall 2025, as discussed during the on-site review.

Annual Review Participants

SWRCB: Heather Bell, Amanda Benitez, Jamie Bix, Melky Calderon, Brian Cary, Bridget Chase, Mike Downey, Matthew Francis, Jean Fung, Lisa Hong, Joe Karkoski, Ahmad Kashkoli, Jennifer Larsen, David Maurer, Wendy Pierce, Darren Polhemus, Lance Reese, Anabel Ruiz, Stefan Spich, Denise Walker, Stephanie White, Matt Wilson, Romana Wortell, Josh Ziese

EPA Region 9: Hector Aguirre, Elizabeth Borowiec, Mimi Soo-Hoo

EPA Headquarters: Bizzy Berg, Matthew Link, Logan Loadholtz

Supporting Attachments

Attachment A: Annual Review Checklist

Attachment B: CWSRF & DWSRF Project File Checklists