

VIA ELECTRONIC MAIL

June 30, 2015

Jim Maughan, Assistant Deputy Director
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State Water Resources Control Board, Division of Financial Assistance
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Re: Comments on Drinking Water Funding Program: DWSRF Intended
Use Plan/Prop 1

Dear Mr. Maughan and Mr. Tran:

On behalf of the California Water Association (“CWA”), I am writing to respectfully offer comments on the Draft SFY 2015-16 Drinking Water State Revolving Fund Intended Use Plan/Proposition 1 (the “IUP”) issued by the State Water Resources Control Board (“State Water Board”) for public review and comment. CWA represents 113 California water utilities subject to regulation by the California Public Utilities Commission (“CPUC”). Its members provide safe, reliable, and high-quality water services to approximately 6 million Californians – 15% of the state’s population – including a significant number living in financially disadvantaged communities or eligible for low income rate assistance programs.

As public utilities defined as such under Section 216 of the Public Utilities Code, CWA’s members look forward to applying for grants and loans under the Proposition 1 Drinking Water Funding Program (the “Prop 1 Program”). CWA attended the workshop on June 22, 2015, and submits the following letter for your consideration as you finalize details of the IUP.

I. Inclusion of CPUC-Regulated Water Utilities

As noted above, CWA’s member utilities are encouraged that the CPUC-regulated water utilities are generally eligible for grants and loans under the Prop 1 Program. For example, CWA is pleased that its members will be eligible for the loan forgiveness component of the Prop 1 Drinking Water loans assigned as state matching funds, as described on page 9 of the IUP. As our members apply for these funds, CWA will look to the State Water Board for guidance on the various SRF funding sources that apply to our members’ projects.

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However, CWA notes that the CPUC-regulated water utilities remain ineligible for certain types of Prop 1 Program benefits and assistance, including, for example, the loan forgiveness component detailed on page 6 of the IUP under Short Term Goal No. 10:

Ensure that at least twenty percent (20%), but not more than thirty percent (30%), of the 2015 Capitalization Grant is provided to eligible recipients in the form of additional subsidy (i.e., forgiveness of principal).

CWA's members are also not currently eligible for the DWSRF Affordability and Additional Subsidy for Disadvantaged Communities described on page 21 of the IUP; a CPUC-regulated water utility is neither a public agency nor a not-for-profit water company.

As taxpayers, the customers of CPUC-regulated water utilities deserve access to government funding through their water utility to pursue projects that impact and improve their water supply. CWA supports and agrees with the objectives achieved by the program elements described above and looks forward to working with the State Water Board in 2016 to pursue and advocate for a legislative solution that would accomplish the statutory changes required to remedy these types of inequities in eligibility.

III. Economically Distressed Area

CWA recommends making a number of changes to the defined term "Economically Distressed Area" in order to address the issues raised by the definition as currently proposed. This section details these suggested revisions.

1. Population less than 20,000 persons.

CWA considers the number of service connections to be a better criterion than census-derived population estimates when determining the size of a community water system. The service territory for a community water system may not perfectly align with a city or a census designated place, thereby making it difficult to determine the exact population. We would recommend a change to this designation such that it apply to a system with less than 7,500 service connections.

2. Unemployment rate must be at least 2 percentage points above the statewide average.

Based on the current unemployment rates in counties, CWA estimates that this criterion excludes almost two-thirds of the State of California from receiving funds through this program. The current statewide unemployment rate is 6.4%, and only 20 of 58 counties have an

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unemployment rate greater than 8.4% (2 percentage points above 6.4%.) Also, we fail to see how the unemployment rate relates to the provision of safe and affordable drinking water. Counties in the very northern part of California have a robust water supply and very reasonable water rates, but they also have very high unemployment. CWA believes there should be more focus on financial hardship and on the average monthly water bill compared with the monthly MHI, rather than unemployment. This is discussed in further detail below.

3. Low Population Density.

As discussed in the bullet above, CWA fails to see how the low population density appropriately correspond to the provision of safe and affordable drinking water. There are 640 acres in a square mile. If the criterion of less than 20 individuals per square mile is applied, it would assume that homes are located on 32-acre lots. Are there any communities in the State that would meet this criterion?

Moreover, using low population density as a criterion for evaluating eligible projects is counter to state policy that encourages “infill” development and sustainable communities. For example, the California Water Plan (<http://www.waterplan.water.ca.gov/>) sets forth goals, strategies and recommendations that support integrated watershed-based management, as well as land use and environmental stewardship. The California Water Plan incorporates state land use policies for encouraging compact and sustainable development and includes narrative and recommendations regarding the benefits of infill development.¹

Additionally, the California Strategic Growth Council, as part of its broader legislative mandate, has identified infill development as an important strategy for achieving Assembly Bill 32 greenhouse gas (“GHG”) reduction targets. While contributing to GHG reductions, it is important to note that achieving infill development will confer a broad range of benefits, including decreased consumption of water and other natural resources and the opportunity for more efficient infrastructure investment and delivery of utility services. This should be the focus of new investment and we should not be incentivizing unsustainable communities. Accordingly, CWA recommends that the IUP be revised to eliminate low population density as a criterion for evaluating project eligibility in connection with Economically Distressed Areas.

¹ For example, the Land Use Planning and Management Resource Management Strategy (“RMS”) uses an avoided-costs approach by recommending Low Impact Development (“LID”) and Leadership in Energy and Environmental Design (“LEED”), which help reduce physical facilities and incorporate water supply benefits. This content is published in the Land Use Planning and Management Resource Management Strategy in Volume 2 of Update 2009 (DWR, personal communications).

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4. New Criteria: Financial Hardship.

CWA notes there are small community water systems in the State that need to build significant and prohibitively expensive treatment plants, which will result in substantial financial hardship for their customers, regardless of their current rates or income levels. These projects are considered necessary to comply with new drinking water standards, but will dramatically increase water rates. Based on our calculations, the construction of some of these projects could result in average residential water rates (and thus, monthly bills) that exceed 5% of MHI. CWA believes that under “And one or more of the following conditions,” a new bullet should be added that states:

- *With the construction of a project to meet a drinking water MCL, the average water bill of a community would exceed 5 percent (%) of the monthly Median Household Income or result in at least a 100% increase in the average monthly water bill.*

Examples of Projects Worthy of Assistance that would be excluded under the current criteria are:

- a) A small community just south of Sacramento has tested above the MCL for Chromium VI in every well in the City. Chromium VI in this City is naturally occurring. The estimated cost to construct treatment is more than \$10 million, which would result in unaffordable rates for the residents. The City meets the less than 20,000 population threshold and the 85% area median income, but it does not meet either of the additional criteria. Its unemployment rate is less than 6% and its population density is greater than 2,500 people per square mile. This would make the City's residents ineligible for grants through the SRF Proposition 1 program.

Given that the goal of the SRF program is to provide safe and affordable drinking water, CWA believes this is a worthy and relevant project that meets the goals of the program and should be eligible for funding.

- b) A small public water system in a tourist community of California has tested positive for PCE. As groundwater levels have fallen, a concentration of PCE has contaminated its system as well as neighboring systems. There are only 900 service connections in this system, and the estimated cost to install treatment facilities is \$1.5 million. The system meets the less than 20,000 population threshold and the 85% area median income, but it does not meet either of the additional criteria. Given the tourist community's economy, its unemployment rate is seasonal and the current average is 7.4%. Additionally, its population density is greater than 2,500 people per square mile. The

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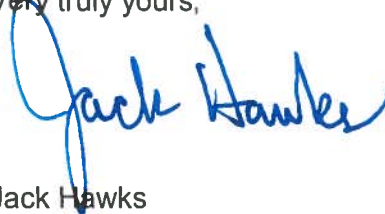
construction of this treatment project is unaffordable for the system's customers, and it is aggressively seeking grants to subsidize the treatment costs.

Again, given that the goal of the SRF program is to provide safe and affordable drinking water, CWA believes this is a worthy and relevant project that meets the goals of the program and should be eligible for funding.

IV. Conclusion

CWA appreciates the opportunity to provide these comments and recommendations to the State Water Board. Please do not hesitate to contact me with any questions you may have at (415) 561-9650.

Very truly yours,



Jack Hawks

cc: Members of the State Water Resources Control Board
Tom Howard, Executive Director
Darrin Polhemus, Deputy Director, Division of Financial Assistance