

VIA ELECTRONIC MAIL

June 16, 2016

Jeanine Townsend, Clerk to the Board
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814
commentletters@waterboards.ca.gov

Re: **Comment Letter – June 21, 2016 Board Meeting – 2016 DWSRF IUP**

Dear Ms. Townsend:

On behalf of the California Water Association (“CWA”), I am writing to respectfully offer comments on the Draft Federal Fiscal Year (“FFY”) 2016 Drinking Water State Revolving Fund (“DWSRF”) Intended Use Plan (“IUP”) for State Fiscal Year (“SFY”) 2016-17 and the revised final guidelines for the implementation of the Prop 1 Drinking Water Program (“Prop 1 Program”), issued by the State Water Resources Control Board (“State Water Board”) on May 17, 2016, for public review and comment. CWA represents 108 drinking water utilities subject to regulation by the California Public Utilities Commission (“CPUC”). Its members provide safe, reliable, and high-quality water to approximately 6 million Californians – 15% of the state’s population – including a significant number living in disadvantaged communities or eligible for low-income rate assistance (“LIRA”) programs.

As public utilities defined as such under Section 216 of the Public Utilities Code, and public water suppliers defined as such under Section 116275 (h) of the Health and Safety Code, CWA’s members look forward to applying for grants and loans under the DWSRF-Prop 1 Program. CWA has met with the staff of the Division of Financial Assistance several times over the past year and appreciates the input and response by staff to its suggestions and input.

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 DWSRF-Prop 1 Program. This eligibility is critical because numerous small water utilities serve disadvantaged communities and some of them have a critical need for capital investment assistance in order to sustain quality service for their customers. For instance, CWA is pleased that its members are eligible for the grant component of the Prop 1 Drinking Water program assigned as state matching funds, as described on page 12 of the IUP. As our members apply for these funds, CWA will look to the State Water Board for guidance on the various DWSRF funding sources that apply to our members’ projects.

Jack Hawks, Executive Director
California Water Association
601 Van Ness Avenue, Suite 2047
San Francisco, CA 94102-6316
415.561.9650
415.561.9652 fax
415.305.4393 cell
jhawks@calwaterassn.com
www.calwaterassn.com

Melissa Dixon, Administrative Director
California Water Association
700 R Street, Suite 200
Sacramento, CA 95811
916.231.2147
916.231.2141 fax
mdixon@calwaterassn.com

CWA President
Greg Milleman
California Water Service Group
661.476.0574
gmilleman@calwater.com

CWA Vice Presidents
Lawrence Morales
East Pasadena Water Company

Keith Switzer
Golden State Water Company

Evan Jacobs
California American Company

CWA General Secretary and Treasurer
Chris Alario
Liberty Utilities
P.O. Box 7002
Downey, CA 90241-7002
562.923.0711
chris.alario@libertyutilities.com

CWA Billing Address
California Water Association
700 R Street, Suite 200
Sacramento, CA 95811

CWA Mailing and Shipping Address
California Water Association
601 Van Ness Avenue, Suite 2047
Mail Code: #E3-608
San Francisco, CA 94102-3200

Jeanine Townsend
June 16, 2016
Page 2 of 3

Likewise, CWA is pleased that the DWSRF policy expands the eligibility of projects to include water meters. As noted, not only do water meters encourage water conservation and help identify leaks and water loss, but also they allow water systems welcome flexibility in establishing water rate structures that allow for quicker and easier drought management and compliance.

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

Ensure that at least 20 percent, but not more than 30 percent, of the 2016 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 principal forgiveness terms for financial assistance in Disadvantaged Communities ("DACs") or Severely Disadvantaged Communities ("SDACs"), as described on page 31 of the IUP (2. DWSRF and Prop 1 Drinking Terms for a PWS Serving a DAC/SDAC or a Small Disadvantaged or Severely Disadvantaged Community). Incidentally, the labeling of this section is inaccurate because CPUC-regulated water utilities are eligible for all Prop 1 drinking water grants and loans under Section 79724.

Despite the fact that they are defined as "for-profit" entities (simply because they are not exempt from taxes under Section 501 (c) of the U.S. Internal Revenue Code), a CPUC-regulated small water system ("SWS") or small community water system ("SCWS") serving a disadvantaged community ("DAC") or severely disadvantaged community ("SDAC") is neither earning a profit on the sale of water to its customers, nor is it likely to be earning any viable rate of return on its invested capital – either because its plant and equipment or fully depreciated or because its plant and equipment are largely the result of contributed capital from third-party sources, and therefore not eligible for rate of return regulatory treatment. In short, these regulated SWS's are similarly situated with their SWS or SCWS public agency or not-for-profit counterparts and should be eligible for these programs and principal forgiveness options. Pages 4, 29, and 31 use the term "for-profit," and we recommend the use of the term, "regulated public water utility, which is reflected Public Utilities Code Section 216 (a) (b) and (c).

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.

Jeanine Townsend
June 16, 2016
Page 3 of 3

II. Senate Bill 1456 (Galgiani)

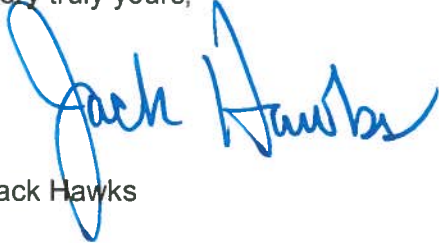
To remedy these inequities, CWA is sponsoring Senate Bill 1456 in the 2016 Legislative Session and is pleased to note that Senator Cathleen Galgiani (D-Stockton) is the bill's author. The purpose of SB 1456 is to expand the eligibility for principal forgiveness in DWSRF loans associated with capital improvements to all community water systems or not-for-profit noncommunity water systems with less than 3,300 service connections serving DACs or SDACs, including CPUC-regulated water utilities.

SB 1456 passed the Senate on May 31, 2016, by a 38-0 vote, and it is currently scheduled for hearing on June 28, 2016 in the Assembly Environmental Safety and Toxic Materials Committee. CWA has worked closely with the State Water Board's legislative staff on this bill since its inception, and it looks forward to continuing that working relationship with the Board's Division of Financial Assistance staff if the bill is enacted into law.

III. Conclusion

CWA appreciates the opportunity to provide these comments and information 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: Honorable Cathleen Galgiani
Members of the State Water Resources Control Board
Commissioner Catherine J.K. Sandoval, California Public Utilities Commission
Tom Howard, Executive Director
Jonathan Bishop, Chief Deputy Director
Darrin Polhemus, Deputy Director, Division of Financial Assistance
Rami Kahlon, Director, Division of Water & Audits, California Public Utilities Commission