

**Appendix 5**  
**County Drought Advisory Group General**  
**Funding and Financing Issues**

Prepared for

**County Drought Advisory Group Process as Partial Fulfillment of**  
**Assembly Bill 1668**

By

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## Part 1: Appendix 5 General Funding and Financing Issues

This appendix contains several funding ideas for small water systems proposed by County Drought Advisory Group. These are not specific recommendations, but are included as suggestions, since improving the financial viability of small water systems can improve drought and water shortage planning and resiliency. The appendix is part of the report *Small Water Systems and Rural Communities Drought and Water Shortage Contingency Planning and Risk Assessment, Part I – Recommendations for Drought and Water Shortage Contingency Plans*. This is supplemental information that is submitted as part of the report submitted pursuant to California Water Code (CWC) Section 10609.42, which directs the California Department of Water Resources (DWR) to identify small water suppliers and rural communities that may be at risk of drought and water shortage vulnerability, and to propose recommendations and provide information in support of improving their drought preparedness.

The County Drought Advisory Group (CDAG) identified that funding and financing is key for small water systems and rural community water shortage contingency planning. The following funding issues are not specific to this project, but they were raised during the CDAG process. These ideas do not represent suggestions or recommendations from the Department of Water Resources (DWR). DWR may consider these suggestions raised by CDAG in future drought support efforts. However, it will require time, effort, and funding to carry out many of these ideas and the pace of implementation will depend upon the feasibility and availability of resources and competing priorities.

CDAG suggestions included:

- The state should consider establishing a transparent process for prioritizing, allocating, and coordinating state drought relief funding.
- The state should consider providing block grants so that multiple systems with similar needs can collaborate to complete a single application.
- The state should consider providing incentives to urban water systems to assist small water systems to support implementation of the human right to water.
- The state should consider providing additional technical and financial assistance for systems to conduct a feasibility analysis related to

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consolidation when applying for funding. The state should consider implementing an advanced funding regime such as the Advanced Payment of Grant Funds applicable currently to Integrated Regional Water Management (IRWM) projects (California Water Code Chapter 7, Section 10551).

- For small water systems between 15 and 200 service connections, the state should consider reimbursing for interest and loan fees related to gap, or bridge, financing for cash flow purposes during capital construction projects. The issue is that state payments can take two to three months to arrive, putting the small water system/district/grantee in a position of being 60 or more days late paying invoices, no matter how diligent they are about preparing claims for reimbursement and getting the funds out the door once received. They then must get a revolving cash flow loan (bridge loan) to keep the money flowing. It's a common practice. Loans don't come for free, though, so loan origination fees and interest are charged. Most funding programs have been declining to cover this expense (especially bond-funded programs).
- For small water systems between 15 and 200 connections, where debt burden is a contributing factor to unaffordable water rates, the state should consider using available funding to refinance or forgive existing debt (state, federal, or private) that was incurred for purposes that correspond to current funding eligibility guidelines. Long-term debt (30 to 40 years) can carry interest rates that are quite high in comparison to today's rates. In small water systems where the debt burden is spread over so few customers, decades-old debt can be the factor preventing the water system from providing safe water at affordable rates. When a financial review reveals that a small water system's financial solvency is inhibited by old, expensive debt (or, perhaps by debt incurred in desperation, in response to an emergency), the simplest (and quite possibly the cheapest) way to resolve their financial problems may simply be to erase the problematic debt.
- The state should continue to offer principal forgiveness as a financing option for small, severely disadvantaged communities and expand principal forgiveness as a financing option for small disadvantaged communities. The current State Water Resources Control Board (State Water Board) Intended Use Plan, which is subject to revision every year, provides for 100% grant/principal forgiveness for small severely

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disadvantaged communities in any case, and for small disadvantaged communities (DAC) who pay more than 1.5% of their median household income to water rates.

- The state should explore options to preapprove work plans for small systems to ensure that funding can be disbursed quickly.
- State should explore ways to tailor, streamline and expedite available funding for small agencies. A significant amount of funding is designated to support small water systems, but these systems often do not have the capacity to go through the funding process.
- The state should explore a technical assistance program focused on ensuring equitable implementation of these recommendations for small water suppliers in disadvantaged communities.
- When providing funding to urban water systems, the state should explore incentives to assist small water systems to support implementation of the human right to water.
- The state should promote the creation of a bridge for urban water systems to help small water systems access further funding. The state should develop and maintain a list of large water systems and professionals who would voluntarily be willing to provide operational and technical assistance. Consideration should be given to provide continuing education units for water operators for helping, such as for developing plans or increasing operational knowledge.
- The state should explore the incorporation of appropriate CDAG funding suggestions into the Resiliency Portfolio, authorized through Governor Newsom's Executive Order N-10-19.
- The state should explore other funding mechanisms for the state Small Water Systems, which can be a challenging issue for those water systems that are privately owned.
- The state should make funding applications consistent across agencies, especially with regards to requirements for technical reports, income surveys, etc.
- Counties should work with IRWM groups to secure funding from state and federal government for rural communities.

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- The state should support a technical assistance program focused on ensuring equitable implementation of these recommendations in domestic well communities and other small and rural communities (including unincorporated communities).
- The state should support an increase in federal appropriations to State Revolving Funds, which will increase funding availability for small water systems and tribal water systems to address critical infrastructure needs and bolster system resiliency if drought conditions occur. The federal funds appropriated annually for Drinking Water and Clean Water State Revolving Funds (SRF) include a small (approximately 2%) tribal set-aside for tribal drinking water and wastewater infrastructure funding. This tribal funding is administered by the U.S. Environmental Protection Agency (EPA). Any increase to the SRF appropriations would result in an increase in tribal funding available. These funds are used to improve infrastructure, and implicitly, they could be used to increase redundancy, resiliency, and capacity during drought conditions.
- The state should explore ways to improve tribal access to state funding by removing, or otherwise addressing, the barrier of requirements for waivers of sovereign rights by tribes in funding programs. It is recognized that any state requirements of a waiver of tribal sovereignty as a condition of accepting state funding is a major barrier to its ability to assist tribes. CDAG recommends eliminating those requirements, whenever possible. In cases when they cannot be waived, CDAG recommends the option of working with a federal agency (e.g., Indian Health Services, or IHS) or a technical assistance provider (e.g., Rural Community Assistance Corp, RCAC) as a partner/funding pass-through to allow state assistance to be provided to tribes without the sovereignty waiver requirement.
- The state should improve tribal access to state funding by rerouting funding through federal partners, like the IHS, or other organizations, like the California Rural Water Association (Cal Rural). In cases when there cannot be a waiver of tribal sovereignty, the state should allow the option of working with a federal agency (e.g., IHS) or a technical assistance provider (e.g., RCAC) as a partner/funding pass-through to allow state assistance to be provided to tribes without the sovereignty waiver requirement.

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- The state should help information flow freely by giving tribes various options for entities to report through, so that they may work with entities with which they have built trust.
- Tribes will have the option of reporting through the IHS. If at any point in the future, a tribe does not wish to report through IHS, the tribe should approach the state and request the ability to report in the same manner as other small water suppliers or rural communities.