



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-8

March 20, 1997

**To:** Board of Directors (Committee on Legislation--Action)  
(Special Committee on Water Quality, Desalination, and  
Environmental Compliance--Action)

**From:** *for* General Manager

*Edward J. Messer*

**Submitted by:** Mark D. Beuhler  
Director of Water Quality

*Mark Beuhler*

**Subject:** Legislation on California Safe Drinking Water Act (SDWA) and Drinking  
Water State Revolving Fund (DWSRF)

## RECOMMENDATION

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That Metropolitan support AB 1180 (Battin - La Quinta) to authorize a bond measure to provide State matching funds for Federal drinking water funding, and

That Metropolitan support SB 1307 (Costa - Fresno), if amended to enable California to maintain primacy from USEPA for the drinking water system surveillance program and to authorize a state drinking water revolving loan fund.

## EXECUTIVE SUMMARY

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On behalf of the California Department of Health Services, Senator Jim Costa (Fresno) has introduced SB 1307 which will serve as a vehicle for legislation to conform the California SDWA to the Federal SDWA Amendments of 1996 so the State can maintain primacy authority over the drinking water system surveillance program. It will also provide the authority and administrative framework for establishing a State drinking water revolving loan fund to facilitate receipt of Federal funds.

The Federal SDWA makes Federal grant money available to States for low-interest loans for qualifying projects to drinking water systems, such as Metropolitan, its Member Agencies and their subagencies. California will receive nearly \$76 million for the first year (FY 1997) and likely will be eligible for equal or greater amounts in subsequent years. However, California must first authorize its State DWSRF through enabling legislation and provide matching funds equal to 20% of the Federal grant or it will lose the Federal funding.

At the request of the Association of California Water Agencies (ACWA), Assemblyman Battin (La Quinta) has introduced AB 1180 which authorizes an \$100 million bond measure to provide California's 20% match required as a condition for receiving Federal funds. If the bill passes and the voters approve the bond measure, California will have a secure source of matching funds for at least the initial years of the 7-year Federal funding authorization. A bond measure is the best way to provide assured funding for California's required 20% match.

Your Board previously approved a policy principle to support efforts to establish and fund a new California DWSRF. Support of these two bills as specified below is consistent with that principle.

### **DETAILED REPORT**

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The Federal SDWA Amendments of 1996 included a number of significant changes not reflected in the existing California SDWA. California law must be changed to conform to new Federal requirements in order for the State to maintain its primacy authority from USEPA to carry out the public drinking water system surveillance and enforcement program. Senator Costa has introduced SB 1307 which, if amended, would enable California to maintain primacy. If this conforming legislation is not passed by the legislature, regulatory control of the drinking water systems in California could shift from the State to the Federal government (USEPA).

The Federal SDWA also authorizes a new State Revolving Fund program to provide low-cost financing to public water systems for projects that facilitate compliance with drinking water standards, provide source water protection, or otherwise protect public health. California is eligible to receive nearly \$76 million in Federal grant money initially and likely will receive equal and larger amounts in subsequent years of the program. SB 1307, if amended, would also authorize the establishment of a DWSRF in California.

Metropolitan and its Member Agencies may be eligible for DWSRF financing of qualifying projects. Qualifying projects include infrastructure improvements such as distribution facilities and finished water storage, and water quality improvement projects such as Metropolitan's Oxidation Retrofit Program. DWSRF financing is expected to be very attractive: the interest rate on DWSRF loans will be set at 50% of the State's long-term borrowing rate. The interest savings on a \$20 million loan repayable in equal installments over twenty years is \$4.6 million, if prevailing interest rates are 6% and DWSRF financing is available at 3%.

In order for California to receive its Federal grant, the State must provide matching funds equal to 20% of the Federal grant. If matching funds are not secured by September, 1998, California loses its first year's \$76 million Federal grant which would then be allocated to other States.

Further, the SDWA Amendments allow up to 10% of the initial grant to be used for source water assessments but do not allow any future Federal grant money to be used for such purposes. Thus, if California loses the initial year's grant, California also loses Federal funding for source water assessments which the EPA will apparently require the states to undertake.

On February 28, 1997, Assemblyman Battin introduced AB 1180 which would authorize an \$100 million bond measure for the purpose of providing DWSRF matching funds. The bond measure would allow California to receive up to \$500 million in Federal DWSRF grants (which do not need to be repaid) and would support \$600 (\$100 + \$500) million in projects and activities that further public health protection. The Federal grant creates a new financing source which would otherwise not be available and, as such, should act as a stimulus to California's economy. The size of the bond measure is adequate to provide matching funds for at least the first several years of the DWSRF program.

It is too early to assess the extent of legislative and public support for the bond measure. The Governor has apparently not yet committed to a drinking water bond measure. This decision is usually made later in the session following discussions with the Legislative leadership about all possible bond measures for the June, 1998 ballot. However, the DWSRF bond measure allows the State to capture \$5 of Federal money for each \$1 of matching funds, which should be attractive to legislators and voters alike.

A general obligation bond measure is considered the best method of providing a secure source of State matching funds for the DWSRF and to capitalize the DWSRF for future loans. If matching funds are not secured through the sale of bonds, the legislature could appropriate General Fund revenues to match the initial grant. Alternatively, water suppliers with qualifying projects could contribute the matching share, although the State would still need to provide matching funds for certain activities that would not be covered by these contributions.

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