

Washington State Drinking Water State Revolving Fund

Intended Use Plan
For Year 25
Federal Capitalization Grant
DOH 331-534 June 2021



On the cover: New Reservoir for Port of Walla Walla Consolidation Project.



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Year 25 Federal Capitalization Grant Intended Use Plan

1. Introduction

Congress established the Drinking Water State Revolving Fund (DWSRF) in August 1996 as part of the reauthorized federal Safe Drinking Water Act (SDWA). The DWSRF Program finances drinking water projects and activities to protect public health and achieve or maintain compliance with the SDWA.

The Safe Drinking Water Act authorizes the U.S. Environmental Protection Agency (EPA) to award annual capitalization grants to each state for a revolving construction loan program and other assistance to public water systems. Each state must provide matching funds of 20 percent of the federal capitalization grant.

EPA awards federal DWSRF capitalization grants to states for:

- **Set-Asides.** Funds for DWSRF Program administration and nonconstruction projects used to ensure compliance with the SDWA.
- **Capital Loan Fund.** Helps eligible water systems achieve or maintain compliance and protect public health by funding drinking water infrastructure improvement projects, such as treatment or a new source.

To access the funds, each state must submit a capitalization grant application to EPA. In addition, each state's capitalization grant application must include an annual Intended Use Plan (IUP), which describes how the state intends to use available funds. As the agency responsible for ensuring compliance with the SDWA in Washington, the state Department of Health (Health) submits the grant application to EPA.

Washington's Year 25 Intended Use Plan

In federal fiscal year 2021 (FFY 2021), Congress appropriated \$1,126,088,000 to EPA for the national DWSRF Program. EPA then appropriated funds to the states based on their statewide needs assessment. Washington will receive \$24,576,000 from EPA to fund capital improvement projects that were ranked and placed on the priority list for state fiscal year (SFY) 2022 (July 1, 2021–June 30, 2022) and set-aside projects. Washington uses 69 percent of the capitalization grant for new construction loans and designates the remaining 31 percent of the capitalization grant for nonconstruction set-aside projects, such as special studies and technical assistance. Excluding set-aside funds, but including the 20 percent state contribution, the state has about \$52 million to award for new construction projects based on the updated predictive model.

As of March 31, 2021, Washington has a cash balance of \$4 million (generated from loan origination fees) for ongoing administration of the revolving fund loan program. The loan origination fee remains at 1.0 percent and was not increased to reduce cost burdens to our water systems. The standard interest rate is 1.75 percent and reduced to 1.25 percent for those projects receiving subsidy.

Washington used public participation to develop this year's loan list for the IUP, which includes:

- Status of Washington's DWSRF Program.
- Washington's process and allocation of capital construction and set-aside funds.
- Washington's determination of loan eligibility and funding prioritization.
- Intended uses of additional subsidization.
- Prioritized-project funding list from DWSRF 2020 Construction Loan cycle.

2. Congressional priorities

Congress established guides for states to use, to the maximum extent possible, to prioritize project spending. Below, Health explains how Washington complies with the priorities in each guide.

Projects that address the most serious risk to public health. We base our priority ranking of projects on public health risk. We rank projects that address acute risks higher than projects that remedy chronic risks. While eligible, we consider infrastructure replacement projects the lowest priority for funding.

Projects necessary to ensure compliance with SDWA requirements. We review all applications with respect to SDWA compliance. If the applicant is out of compliance, the proposed project must resolve the issue or the applicant must satisfactorily show that another project will return the water system to compliance.

Assistance should be provided to systems most in need, on a per household basis, according to state affordability criteria. We allow all eligible community water system applicants to request consideration for subsidy based on their rate affordability. To calculate affordability, we use the Affordability Index, a formula that considers an applicant's water rates and median household income. We also allow school districts that own and operate a public water supply to be subsidy-eligible based on corresponding free and reduced lunch metrics. For kindergarten through grade 12 schools that own and operate a Group A water system, we use the following information to determine subsidy:

- Up to 30 percent principal forgiveness awarded if 30 to 49 percent of the student population receive free and reduced lunch.
- Up to 50 percent principal forgiveness awarded if 50 percent or more of the student population receive free and reduced lunch.

All other noncommunity systems were deemed subsidy-ineligible. By definition, noncommunity water systems do not supply water to households; and therefore, they can't meet federal requirement to base affordability on a "per household basis."

Provide at least 20 percent of the DWSRF Capitalization Grants as loan subsidy to eligible recipients. We have given needy systems about \$43 million in subsidies since 2010 (Table 1, page 5).

For the 2020 funding cycle (SFY 2022), the basic loan rate (as advertised in the 2020 DWSRF Construction Loan Guidelines) is a 20-year fixed-rate loan with 1.75 percent interest. However, those projects receiving subsidy (awarded as principal forgiveness) are assigned a lower interest rate of 1.25 percent. DWSRF program staff decided to maintain these lower interest rates in response to the current economic challenges statewide due to the COVID 19. All executed loan contracts will have a basic interest rate of 1.75 percent and loan recipients meeting the disadvantaged criteria will receive an interest rate of 1.25 percent. For SFY 2022, a minimum of 20 percent of the capitalization is to be awarded as subsidy and this amount equates to \$4,915,200.

Starting with the highest scoring applicants, the program awarded subsidy using the following criteria:

- Water systems with an affordability index of 2.01–3.50 percent will receive 30 percent principal forgiveness on their loan.

- Water systems with an affordability index of 3.51 percent or more will receive 50 percent principal forgiveness on their loan.
- Restructuring and consolidation projects that involve acquiring other noncompliant, failing, or struggling public water systems that have water quality problems or deteriorated infrastructure will receive 50 percent principal forgiveness on their loan. Note that in future years, all consolidation projects will need to meet the affordability criteria to receive subsidy.

Using the criteria listed above, the program was able to meet the minimum subsidy award of \$4,915,200. In the event the program was unable to meet the minimum subsidy award, the other criterion available to the program is:

- Water systems with a Debt Service Coverage Ratio of less than 1.20:1 (i.e., \$1.20 in net income for every dollar of debt payments due in a year) may also be considered for subsidy if subsidy dollars are still available after using the screening methods above.

The following projects will receive subsidy.

Project Applicant	Project Name	Funded Amount	Subsidy Award
Kitsap Public Utility District #1	Bill Point, Island Utility, South Bainbridge Consolidation Phase 1	\$2,455,000	\$1,227,500
PUD No. 1 of Jefferson County	Shine Plat System Consolidation	\$490,000	\$245,000
Mason County PUD No 1	Shadowood System Rehabilitation and Consolidation	\$2,074,712	\$1,037,356
Pend Oreille Public Utility District	River View Shores Arsenic Removal Project ADDITIONAL	\$82,000	\$24,600
Thurston PUD	Glen Alder Consolidation and Mainline Replacement	\$517,480	\$258,740
Thurston PUD	Country Club Estate Consolidation and Mainline Replacement	\$756,400	\$378,200
Thurston PUD	Pattison Consolidation and Mainline Replacement Project	\$3,141,500	\$1,570,750
Mason County PUD No 1	Canal View System Consolidation and Upgrades	\$468,260	\$234,130
Kiona West Heights Association	KWHA Well Replacement	\$1,234,500	\$617,250
Total			\$5,593,526

Final subsidy awards are also listed by project in Appendix B.

Table 1

Summary of Washington Subsidy Awards							
SRF/ SFY Year	Cap Grant Amount	Subsidy Required	Subsidy Awarded	% Subsidy Awarded	Subsidy Expended	% Subsidy Expended	Notes
14/2011	\$34,650,000	30%	\$11,502,685	33%	\$11,406,799	33%	Subsidy Met
15/2012	\$24,044,000	30%	\$ 7,508,737	31%	\$6,926,805	30%	Subsidy Met
16/2013	\$22,914,000	20-30%	\$ 6,147,175	27%	\$6,147,175	27%	Subsidy Met,
17/2014	\$21,499,000	20-30%	\$ 4,381,590	20%	\$4,381,590	20%	Subsidy Met
18/2015	\$19,741,000	20-30%	\$ 3,849,645	20%	\$3,849,645	20%	Subsidy Met
19/2016	\$19,600,000	20-30%	\$4,060,444	21%	\$3,573,434	18%	2 projects open, still drawing
20/2017	\$18,233,000	20-50%	\$ 3,764,308	21%	\$3,037,108	17%	4 projects open, still drawing
21/2018	\$18,233,000	20-50%	\$ 4,446,769	24%	\$3,583,966	20%	4 projects open, still drawing
22/2019	\$24,815,000	20-50%	\$ 5,878,205	24%	\$73,876	1%	4 projects open, still drawing
23/2020	\$24,583,000	26-55%	\$6,451,900	26%	N/A	N/A	Contracts executed.
24/2021	\$24,598,000	20-50%	\$5,776,940	23%	N/A	N/A	Contracts out for signing.
25/2022	\$24,576,000	20-50%	\$5,593,526	23%	N/A	N/A	Contracts need to be executed.
Total	\$277,486,000		\$69,361,924		\$42,906,522		

3. Washington’s program goals

We developed the following goals to sustain our DWSRF Program over time and to ensure compliance with the performance standards in EPA’s Environmental Results Goals.

DWSRF Mission: The DWSRF Program helps water systems by providing affordable financing to eligible entities for planning, designing, and constructing public water facilities that provide safe and reliable drinking water.

Vision: Washington State is a national leader in providing comprehensive financial and technical support to water systems.

Goals: Washington State’s public water systems are safe, reliable, and sustainable, and water is affordable for all citizens.

Philosophy: The overall philosophy of the Washington state DWSRF is to maximize the availability of DWSRF funds for project construction.

Short-term goals

- **Assess our fund management system for opportunity.**
 - Continue to work with Public Financial Management consultants (PFM) on the predictive model and provide financial updates to PFM quarterly.

- Adjust interest rates to address long-term inflation and provide for fund sustainability.
- **Continue to grow and expand programs that improve readiness to proceed and improve use-rate of construction money awarded.**
 - Contact construction loan recipients experiencing delays with their projects to review options that would allow their project to reach construction. If needed, convert the construction loan to a preconstruction loan to allow the entity to continue with preconstruction activities.
 - Conduct an annual review of readiness-to-proceed criteria for construction loans and improve the criteria to better identify “shovel ready” applicants.
 - Consider new loan eligibility criteria to include past performance on DWSRF loans. For instance, jurisdictions that have needed multiple time extensions on current open DWSRF loans may be deemed ineligible for a new loan until construction on all existing loans is completed.
- **Ensure that at least 15 percent of the available funds provide financial assistance to small systems that have projects ready for construction.**
 - Technical assistance providers and DWSRF staff are available to help systems prepare for construction loans, such as assistance with rate setting, training on DWSRF construction loan funding, and income surveys.
- **Provide financial and technical assistance to help public water systems increase technical, financial, and managerial capacity.**
 - Continue to provide technical assistance through two contracts: Rural Community Assistance Corporation and Small Community Initiatives. These technical providers assist systems with board training, funding applications, rate setting, and asset management.
 - Offer asset management training.
 - Continue to collaborate with other funding partners on small system training on infrastructure funding. Three trainings were offered this past year via webinars: regionalization, value planning, and asset management.
- **Review and implement process improvement efficiencies**
 - Evaluate current systems and determine the feasibility of electronic payments for water system invoices.
 - Improve water system contact information and determine whether invoicing can be done electronically.
 - Provide training and resources on DWSRF online application (WALT) to internal and external stakeholders.
 - Continue to implement construction site visits and inspections during construction. Also develop the ability to conduct remote construction site visits.
 - Provide one-on-one contract training with each applicant approved for a construction loan.
 - Encourage funding applicants to coordinate water main replacement projects with other infrastructure projects, such as transportation improvement, fish-passage barrier removal, or sewer-line replacement projects. DWSRF applicants that combine infrastructure projects will receive bonus points or, in some instances, a certain amount of guaranteed loan funding.

Long-term goals

- **Strengthen the fiscal integrity of the fund.**

Solid and complete financial analysis is required to understand the implications of any particular DWSRF financial policy choice, such as leveraging the fund to provide additional cash flow. Washington has contracted with PFM to assist with developing a long-term financial strategy. Alternatives under consideration include increasing the interest rate and modifying how loan fees are assessed. In addition, PFM created and will oversee the predictive model for the loan program. A solid plan will protect the financial future of DWSRF using all of the relevant operating assumptions for the program.
- **Acknowledge and address household affordability constraints.**

Washington will regularly reevaluate the affordability criteria to ensure that public water systems in greatest need of help receive subsidy and technical assistance. DOH staff currently collaborate with other funding agencies to better assess hardship criteria and to develop more uniform criteria for establishing hardship. DWSRF will modify the affordability criteria prior to the next funding cycle to incorporate wastewater rates.
- **Use DWSRF funds to promote resilient, energy-efficient infrastructure.**
 - Encourage an investment-grade energy audit for construction loans where the project results in an increased energy demand (pumping or treatment plant projects) for water systems serving communities with a population of 10,000 people or more.
 - To better promote resiliency projects (such as seismic upgrades, relocating sources, or installing generators), we now identify resiliency projects in Risk Category 4 for projects. A number of resiliency construction loan projects have been funded to date, including seismic upgrades to finished reservoirs, installation of generators at main sources, and interties.
 - A new risk category was created to address regional issues for water systems in the state experiencing declining aquifers and water shortages, such portions of the Mid-Columbia Basin. Although the program did not receive any project applications to address this issue during the 2020 DWSRF Construction Loan cycle, we will continue to recognize this category of projects.
 - Award bonus points for projects that reduce water loss or energy use.
- **Continuously improve the DWSRF Program so we are more efficient and better able to serve our customers.**
 - Improve the online application process.
 - Develop electronic invoicing and payments for our loans. ACH payments were accepted in the 2020 billing cycle and was used by dozens of water systems.
 - Educate water systems about the DWSRF Construction Loan Program before each loan cycle.
 - Maintain emergency funding to assist systems affected by unforeseen events and to ensure they continue to maintain public health protection.
 - Maintain ability to award additional funding for existing DWSRF loans to address escalating construction costs that exceed funding amount and allow project completion.
 - Continue to offer Water Main Replacement Loan funding opportunity to address stakeholders' requests to support replacement of old and failing water mains. Because of the scoring and ranking of DWSRF Construction Loan project applications based on health risk being addressed, water main projects have not ranked high enough for funding in recent

years. DWSRF intends to designate a portion of stimulus funding for water main replacement projects to best meet the needs of our stakeholders.

- Make Preconstruction Loans available to allow systems to better prepare for infrastructure improvements. Starting in January 2021, Preconstruction Loans are available year-round.

- **Continue offering Consolidation Feasibility Study Grant funding.**

The Consolidation Feasibility Study Grant funding program was suspended temporarily in 2017, due to budget issues associated with the state Legislature not passing a capital budget. Historically, this grant program was funded through set-asides. Our stakeholders found great value in these small grants (up to \$30,000 per project), which allowed the study of potential transfer of ownership and consolidation projects to address compliance or capacity issues with small, struggling water systems. This funding program was re-established in 2019 using our loan origination fee fund. To allow DWSRF program staff to prepare for stimulus funding, this funding opportunity will not be made available in 2021, but will most likely be offered again in 2022.

- **Continue to promote asset management**

- Bonus points are awarded for DWSRF applicants that have attended an asset management training, have an asset inventory, and have assigned criticality numbers to assets.
- Continue to require DWSRF funding recipients to develop an asset management program. DWSRF applicants that do not have an existing asset management program must develop an asset inventory, including expected life of assets and replacement costs for each asset. Applicants with an existing asset management program are provided the ability to improve their asset management program. Up to \$40,000 of additional funding will be awarded per jurisdiction for asset management efforts.

Environmental Results Goals

Washington's DWSRF project loan funds and set-aside work plans support EPA's strategic planning Goal 2, "Protecting America's Waters," and strategic Objective 2.1, "Protect Human Health" by safeguarding human health through regulations and by protecting public drinking water. Our program provides funding to help achieve this federal performance standard. We intend to meet or exceed EPA's annual performance targets.

We will use these performance measures to help ensure the loan program achieves federal standards:

- **Annual percentage of assistance agreements to bring water systems into compliance.** Based on available funds, Washington proposes to fund 20 DWSRF-eligible projects from our fall 2020 loan cycle with 69 percent of the capitalization grant funding, for a total award of about \$52 million (see Appendix B). Five of the funded projects address compliance issues and the remaining funded projects improve system capacity through consolidation efforts or provide system resiliency.
- **Fund utilization rate (cumulative loan agreement dollars compared with the cumulative funds available for projects) for the DWSRF loan fund.** This indicator is commonly referred to as "pace" and it measures how well the state is putting its available funds into loans. States should target pace levels near or above 100 percent. States that are lagging in this measure, or have declining pace levels, may need to review loan policies and procedures, and outreach techniques. Nationally, pace was 96 percent for the DWSRF in 2020 (cumulative). States with pace levels greater than 100 percent are generally practicing advanced loan commitment. Pace does not measure how quickly funds are

disbursed after the loan agreement has been signed. The table below shows the fund utilization rate for Washington State, our Region 10, and the nation for the past four state fiscal years.

Loans as a Percentage of Funds Available for Loans (Fund Utilization Rate)					
SFY	Total Project Funds Available	Total Loans	Washington	Region 10	U.S.
2017	\$ 662,399,237	\$ 887,473,473	134%	111%	96%
2018	\$ 714,204,567	\$ 887,473,473	124%	109%	96%
2019	\$ 784,408,132	\$ 928,241,191	118%	106%	95%
2020	\$ 847,871,539	\$ 948,200,820	112%	103%	96%

4. Set-aside activities

The primary focus of the DWSRF Program is to fund capital construction projects that help to protect public health and ensure SDWA compliance. However, states also may use 31 percent of their annual capitalization grant for various nonconstruction activities that accomplish the same purposes. Funds for these nonconstruction activities are called set-asides.

There are four set-aside categories. The federal DWSRF Program limits the amount states can use for each category and specifies the types of activities we can fund:

- Program administration (4 percent plus two new options as described below).
- State program management (10 percent).
- Small system technical assistance (2 percent).
- Local assistance and other state programs (15 percent).

Our staff, third-party contractors, or direct funding to public water systems are examples of set-aside assistance. Washington will use funds from these capitalization grants to fund activities during more than one state fiscal year. However, to keep unliquidated obligations at a minimum, the state strives to fully spend each set aside within a two-year period. If there is a time when the state can't spend down an approved set-aside work plan within two years, as we have in the past, we will amend work plans, ask for additional time to spend, or transfer that set-aside funding to be disbursed through the loan program.

The state will not use funds for set-asides, other than program administration, until EPA approves detailed work plans. We anticipate completing this process and having funds available in SFY 2022. Washington intends to use 31 percent of its twenty-fifth year capitalization grants for current and future set-aside activities. We will begin using program administration set-aside funds in SFY 2022. Any remaining set-aside funds will be used in SFY 2023. The subsections below describe how Washington intends to use these set-aside funds.

We use set-aside funds for work plans that contribute to achieving EPA's Strategic Goal 2, sub-objective 2.1.1 Water Safe to Drink: Percentage of the population served by community water systems that receives drinking water that meets all applicable health-based drinking water standards through effective treatment and source water protection.

To carry out the set-aside activities below, we often rely on contractors with specialized skills and qualifications. We will use a contractor from the state's contractor list or use a competitive bid process to purchase these services.

Program administration set-aside

Washington plans to cover direct and indirect expenses associated with program administration activities. We often supplement this SRF set-aside with DWSRF loan origination fees because the set-aside does not provide sufficient funding for this activity. EPA recently modified the amount states can designate for program administration and states can now elect the greatest of one of the following for program administration:

- Four percent of the capitalization grant.
- Flat \$400,000.
- One-fifth of 1 percent of the total valuation of the state revolving fund balance.

Washington will use 4 percent of the capitalization grant for program administration.

State program management set-aside

When Congress reauthorized the SDWA, it recognized that federal funding for state drinking water programs was inadequate in states that assumed primacy for enforcing the SDWA. To help resolve that state funding issue, Congress gave states the option of using up to 10 percent of their annual DWSRF allotment for program management. Washington uses the full 10 percent allotment to manage the state drinking water program.

Health uses this set-aside to fund a significant number of positions that:

- Administer the state Public Water System Supervision (PWSS) Program.
- Maintain and improve the computer systems at Health's Office of Drinking Water.
- Collaborate with staff, public water suppliers, and government agencies to help them understand regulatory requirements and assist them when water quality contamination occurs.
- Provide notification, compliance, financial, and technical assistance, which helps to ensure systems meet Public Notification, Consumer Confidence Report, and various water quality monitoring requirements.
- Develop technical regulations, program plans, policies, and guidelines. Efforts include PFAS rule-making, sampling, and mitigation.

Small system technical assistance set-aside

This set-aside funds technical assistance for water systems that serve fewer than 10,000 people. We will use our full 2 percent allotment from this set-aside to support small system technical assistance activities.

Local assistance and other state programs set-aside

A state may fund several categories of activities to help develop and/or implement local drinking water protection initiatives under Section 1452(k) of the 1996 SDWA amendments. States may use up to 15 percent of the annual capitalization grant for the local assistance and other state program set-asides, with a maximum of 10 percent for any one category of assistance. We intend to use 15 percent of this set-aside this year for activities related to system capacity development or source water protection.

This year the program will transfer (bank) \$233,325 of the 15 percent set-aside to provide additional funding for infrastructure loans.

Capacity Development and Water System Sustainability

Washington State's Capacity Development Program is one of the strongest in the nation due to the internal and external partnerships we have developed and continue to maintain. We continue to use tools that prove successful and create new tools, as needed, to accomplish our goals. We will focus on training and technical assistance resources as much as possible for water systems willing and able to build capacity to sustain themselves. We will rely on our graduated compliance approach to direct water systems when they are unable or unwilling to maintain sufficient capacity. We strive for innovative approaches to help struggling small systems succeed or get out of the water business, and mitigate the impending financial burden on customers of those systems.

As the COVID-19 pandemic continues, we continue to nurture relationships and develop forward-thinking strategies with partners to help meet our mutual goal of providing safe and reliable drinking water to the people of Washington State now and into the future. Washington State will use 10 percent of the Local Assistance and Other State Programs set-aside to provide DWSRF capacity development assistance in the form of financial assistance, technical assistance, sanitary surveys, and other types of program support to drinking water systems. Capacity development activities include, but are not limited to:

- Providing outreach and communication tools on technical, managerial, and financial capacity on our website and other media outlets. This will continue to include information on developing or improving the utility's ability to offer customer assistance programs for their customers impacted by the pandemic and have not been able to pay their utility bills
- We will look to reenergize our efforts to conduct sanitary surveys, including virtual surveys that allow us to follow safety measures to minimize the spread of COVID-19.
- Supporting water systems as they respond to issues related to COVID-19 that affect their operations, including guidance and support for staffing, supply chains, emergency preparedness and response, and building safety issues concerning legionella as the state begins to reopen.
- Providing specific technical assistance (such as coliform monitoring and follow-up requirements) to help water systems achieve and maintain compliance.
- Maximizing public health protection through problem identification, correction, and performance optimization of existing surface water treatment plants.
- Partnering with state and federal agencies to support and maintain water system emergency response capacity. Specifically, we will work with our Clean Water partners to prepare for the Cascadia Rising 22 earthquake preparedness exercise that will have a specific focus on water and sanitation availability.
- Helping public water systems research and determine whether their groundwater source is under the direct influence of surface water.
- Offering technical assistance to water systems to develop and implement source-water protection programs, set rates, train new board members, and seek funding for projects.
- Providing training across the state for water system operators, owners, and decision makers to increase knowledge of operations and improve performance.

- Collaborating with other funding and technical assistance agencies to provide technical team meetings for jurisdictions developing water infrastructure projects anytime during the year. The technical meetings allow jurisdictions the ability to learn about available funding sources, how to apply for funding, and technical assistance that can be provided for project development.
- Implementing a coordinated approach to water system asset management programs with other state and federal agencies to encourage strong financial and managerial capacity in every water system. Activities include asset management and rate setting training for operators, decision-makers, and other stakeholders; improved education and training for state staff on assessing financial capacity of public water systems to improve technical assistance and plan review; and encouraging regionalization activities to achieve economies of scale and improve utility sustainability through training and outreach efforts. In addition, the DWSRF Program awards bonus points for asset management and requires DWSRF construction loan recipients without an asset management program to develop an asset management program as part the funding package. The program provides additional funding, up to \$40,000, to loan recipients to develop the asset management program.
- Increasing our emphasis on workforce development as we move closer to 2028 when 50 percent of our 4,000 certified operators stated they will be eligible to retire. We will look to partner with our technical assistance providers and professional organizations to develop new strategies and initiatives to avoid the potential crisis of a depleted workforce.
- We will team with our partners and the Department of Commerce as they begin to implement several new programs focused on Water Sector utility customer assistance as a part of the operational recovery from the impacts of COVID 19.

Source Water Protection

Washington will continue to reserve 5 percent of the Local Assistance and Other State Programs set-aside to work with systems to improve their source water protection programs and achieve implementation of important wellhead and watershed protection projects. We continue to improve the program by engaging with other state and federal agencies, local governments, and nongovernmental organizations to collaborate on mutually beneficial projects and plans that improve water quality and quantity and to ensure safe and reliable drinking water for the people of Washington.

Source water protection activities include, but are not limited to:

- Maintaining and enhancing internal and external source water protection applications; and providing source water protection data, information, mapping, analysis, and GIS support.
- Providing up-front technical assistance to local governments as they develop long-range plans and land-use regulations to identify modifications aimed at improving source water protection.
- Providing financial and technical assistance to local governments and municipal water systems to carry out source water protection projects.
- Providing source water protection outreach and communication tools on our website and other media outlets.
- Offering technical assistance to water systems to develop and implement source water protection programs that safeguard the quantity and quality of their source water.
- Coordinating and collaborating with other agencies on plans or projects to improve water quality of all sources of drinking water and development of regulations that intersect with drinking water interests.
- Selectively review and comment on environmental processes associated with development projects statewide, where overlain by wellhead protection areas.
- Reviewing and commenting on water quality and quantity plans and regulations at all levels of government that could affect drinking water sources.
- Participating in climate change and drought preparedness activities.
- Working with others to evaluate and develop policies and rules relating to unregulated contaminants. Coordinate sampling or modeling to evaluate potential risks of these contaminants.
- Providing training across the state for water system operators and owners, local planners, and decision makers to increase knowledge about source water protection, regulatory framework, emerging contaminants, and watershed health.
- Evaluating the option of developing a watershed purchase loan program for source water protection.

5. Capital Loan Funding

In November 2020, we received, reviewed, and ranked 38 construction loan applications with a total request of over \$108 million. Health decided to make approximately \$52 million available for new construction projects. Eligible entities for DWSRF Construction Loan funding are:

- Community water systems, including publicly and privately owned systems. For-profit community water systems are eligible for a construction loan, but are not eligible for subsidy.
- Not-for-profit noncommunity water systems.

Appendix B shows Washington's recommended 2020 Fall DWSRF Priority Project List for Year 25 DWSRF funding. We intend to execute loan contracts and disburse funds to these projects on or before July 2021.

The list in Appendix B is subject to change for the following reasons.

- 1. Applicants receive alternative funding.** Applicants may receive grant or loan assistance from other funding sources, such as Rural Development, and no longer need DWSRF money.
- 2. Applicants are "bypassed."** The Office of Drinking Water underwriter reviews DWSRF applications for ability to repay the loan, ability to secure the loan, and readiness for the project to proceed. Applicants that fail to meet these criteria are "bypassed" (no longer considered for funding).
- 3. Applicants withdraw from the process.** Applicants may choose to withdraw from the loan process for other reasons.

The Washington DWSRF Program will continue to make funding available to assist systems when the bid amount exceeds the initial project cost estimate. Due to recent escalation in construction materials, particularly pipe and steel products, we decided to reserve \$3 million to assist loan holders with increased costs. We will use the following criteria to assist systems in need of additional money for construction overruns:

- Award money on a first-come basis.
- Additional amount awarded cannot exceed \$500,000. We will award additional funding at 1.75 percent interest and 1.0 percent loan origination fee.
- The scope of work cannot be modified.
- Bid tabs must be provided to document construction costs.
- Loan holders must provide an explanation for the increased costs.
- Additional funding will also be provided for increased costs for COVID-19 safety plan implementation.

Health will also continue to support its DWSRF Emergency Loan Program. Health allocated \$1 million for emergency funding.

This year the capital loan funding will receive an additional \$233,325 from the 15 percent set-aside to provide additional support for infrastructure loans.

Table 2

Washington State Drinking Water State Revolving Fund Financial Status and Intended Uses of Funds Year-25 Federal Capitalization Grants		
CATEGORY	AVAILABLE FUNDS APPLICATION YEAR 25	INTENDED USE (\$)
Total Available		
Federal Capitalization Grant	\$24,576,000	\$24,576,000
20% State Match	\$4,915,200	\$4,915,200
Total	\$29,491,200	\$29,491,200
Set-Asides:		
Program Administration (4%)	\$983,040	\$983,040
State Program Management (10%)	\$2,457,600	\$2,457,600
Small System Technical Assistance (2%)	\$491,520	\$491,520
Local Assistance & Other State Programs (15%)	\$3,453,075	\$3,453,075
Total Set-Asides	\$7,385,235	\$7,385,235
Project Funds Available From Year 25 Capitalization Grant + Match	\$22,105,965	\$22,105,965
Total Available for New Project Loans	\$22,105,965	\$22,105,965
Total Project Funds and Set-Aside Funds	\$29,491,200	\$29,491,200

6. Amounts transferred between the DWSRF and the CWSRF

A state governor may elect to transfer up to 33 percent of the DWSRF capitalization grant to the Clean Water State Revolving Fund (CWSRF) or an equivalent amount from the CWSRF to the DWSRF project fund.

Washington does not intend to transfer funds between these programs during Year-25 of the DWSRF Program.

7. Criteria and Method for Distributing Capital Loan Funds

This year's \$59 million IUP distribution was based on current cash on hand and adjusted for projected inflows and outflows over the next few years. The program considers current economic conditions and future IUP distributions in its multi-year planning. The funds remaining in the account support the \$20 million emergency reserve and the planned increase to the 2021 loan cycle.

June 2021 Cash Balance	\$87,000,000
State Match	\$5,000,000
Cap Grant	\$17,000,000
Loan Repayments	\$40,000,000
Projected Draws (Executed Loans)	(\$28,000,000)
Projected Cash Available	\$121,000,000
2021 IUP Total	\$59,000,000

Money in the DWSRF Project Fund can be used for:

- New construction project loans. We allocated about \$52 million.
- Construction over-run costs. We allocated \$3 million.
- Emergency loans. We allocated \$1 million.
- Preconstruction Loans. We allocated \$3 million.
- Reimbursements for executed construction loan activities.

7A. Construction Loans

Loan applications

We accepted applications for the Year 25 DWSRF Loan Program from October 1 to November 30, 2020. We received 38 applications requesting about \$108 million.

DWSRF staff provided information and technical assistance on the application process at multiple professional conferences and DWSRF-sponsored webinars. We notified stakeholders on the availability of the construction loan through e-mails and updates to the DWSRF webpage. All information related to the 2020 DWSRF Construction Loan cycle was posted to the DWSRF webpage.

Washington's eligibility and threshold review

Washington's eligibility criteria included all federal eligibility criteria plus several state criteria (Appendix A). Our DWSRF staff reviewed applications for eligibility and assigned a preliminary score based on information in the application, and an initial review of system compliance status.

We determined that six projects were ineligible. Ineligible applicants were provided the opportunity to appeal our determination; we received no appeals. See ineligible and unfunded projects in Appendix C.

Washington's prioritization process

After assigning a preliminary score based on information in the applications and an initial review of each system's compliance status, our DWSRF and regional staff met January 19, 2021, to assign final scores. Staff reviewed compliance files from regional offices and discussed the merits of each project. Regional office files contain considerable background information on each system's operational and compliance history, which was valuable in assessing the true public health significance of each proposal.

As noted in the 2020 DWSRF Construction Loan Guidelines, water main replacement projects that coincide with other infrastructure improvement projects are automatically funded until the available \$3 million allocated for these projects is exhausted. We received and funded Olympic View Water and Sewer District's water main replacement project that coincides with both storm water and surface restoration improvement projects. The Skagit PUD Judy Reservoir Transmission Main is funded as a resiliency project, but important to note a portion of the transmission main coincides with a County trails project.

As previously described, we assessed each project for its ability to receive principal forgiveness, or subsidy. We awarded more subsidy than required on projects, as shown in Appendix B.

We will consider comments received during the public review when finalizing this IUP and the Priority Project List.

Ranking eligible applications

Using the criteria in Washington's fall 2020 DWSRF Guidelines to score eligible loan applications, we awarded "basic points" and "bonus points."

We awarded basic points by the:

- Level of public health risk the proposed project would eliminate.
- Type of project proposed to solve the problem(s) identified in the application.

We gave “bonus” points to project applicants that:

- Involved restructuring or consolidation benefits.
- Provided regional benefits.
- Were ready to proceed because of a preconstruction grant, consolidation grant, or preconstruction loan.
- Had an asset inventory, attended an asset management training, or assigned criticality ratings to assets.

Water System Capacity Review

Water system capacity is an eligibility requirement for DWSRF loans.

Water system capacity is the operational, technical, managerial, and financial capability of the water system to achieve and maintain compliance with all relevant local, state, and federal plans and regulations. Water systems lacking the capacity to maintain compliance with the SDWA are not eligible for funding unless the system owner or operator agrees to initiate feasible and appropriate changes, or the financial assistance will ensure long-term compliance.

DWSRF applicants must demonstrate water system capacity. To do so:

1. The applicant must have a current, Health-approved Water System Plan (WSP) or Small Water System Management Program (SWSMP). In past years, the WSP approval must not expire on or before the close of the funding cycle (November 30, 2020, for the current funding cycle). The DWSRF program did an emergency rule change to address this requirement and to provide more time for water systems to achieve approval of their planning document. To be eligible for a 2020 DWSRF Construction Loan, one of the following criteria must be met:

The planning document must remain valid through November 30, 2020,
OR

The planning document has been submitted to the regional office for review by November 30, 2020, and receives regional office approval by March 30, 2021.

The emergency rule change was done in response to concerns by water systems experiencing planning effort delays due to COVID-19-related issues.

2. The applicant's current, Health-approved WSP or SWSMP must include the proposed project.
3. The water system must have a satisfactory operating permit status at application or on completion of the proposed project.
4. The system must be in compliance with any active enforcement actions (including departmental orders, penalties, bilateral compliance agreements, or federally issued administrative orders or stipulated penalties).
5. The board or council that oversees the water system must have the majority of positions filled, meet regularly, and provide meetings minutes for review.
6. The water system must verify that it maintains operational and maintenance records.
7. The water system must have a properly certified operator.

Projects ranking high enough to be considered for funding, yet not currently meeting capacity requirements 3 and 4 above, may still qualify for a loan if the applicant documents and ensures the proposed project will address these compliance and capacity requirements.

Financial capacity

To protect the federal and state interest in the long-term viability of the loan program, Washington considers the applicant's ability to repay the loan. The financial evaluation includes reviewing three years of documentation (such as tax returns, budgets, balance sheets, bank statements, and business references) and conducting a detailed financial capacity analysis.

All recipients must dedicate a source of revenue to repay the loans. Some applicants will dedicate part of their general funds, and others will propose establishing or increasing user fees.

Readiness to proceed

Applicants must bid their project within 18 months of contract execution and complete DWSRF-funded projects within 48 months of contract execution. We use the following questions to evaluate a project's readiness to proceed:

- Is the scope of work clearly defined?
- Are water rights in hand? If not, what is the timeline for securing water rights?
- Is preliminary engineering complete?
- Have project permits been obtained or are they in process?
- Is land acquisition or easements part of the project? If so, have rights of way and easements been secured?
- Is the project located near or on a known archaeological site or environmentally sensitive area?

7B. Preconstruction Loans

Starting in January 2021, the DWSRF Preconstruction Loan is available on a year-round basis. Community water systems and not-for-profit noncommunity water systems are eligible for a Preconstruction Loan. This program is intended to assist our water systems with preparing for a construction project. Two unfunded 2020 DWSRF Construction Loan applicants (Boistfort and City of Port Orchard) applied for and received a Preconstruction Loan to allow project development. The general terms of the Preconstruction Loan are:

- Approximately \$3 million available through June 30, 2022.
- Maximum award per jurisdiction is \$500,000.
- Funding is awarded on a first-come basis until funding exhausted.
- Zero percent annual interest rate. No subsidy available.
- Two percent loan origination fee (non-refundable).
- Two-year time of performance.
- Ten-year repayment period.

We will also make preconstruction loans available to existing construction loan holders that are having difficulty making progress. In these instances, we will terminate the construction loan and replace it with a preconstruction loan. Bonus points are awarded on a DWSRF Construction Loan application to entities that received a preconstruction loan from any funding program.

7C. Emergency Loan Program

The DWSRF Program guidelines allow states to use funds for emergency recovery activities according to established emergency funding procedures. The emergency rule became final on April 1, 2016.

Emergency loans are available to not-for-profit community and non-community water systems serving fewer than 10,000 people. During the period of this IUP, Washington intends to make \$1 million available to eligible water systems. To date, we have executed one emergency loan. In the event of a large scale disaster, DWSRF will modify the availability of emergency loans and funding amount.

For purposes of this program, "emergency" refers to an event like a natural disaster or other event that damages or disrupts normal public water system operations and requires immediate action to protect public health and safety. A failure to maintain, replace, reconstruct, upgrade, or make necessary infrastructure improvement does not constitute an emergency.

Our primary goal is to respond to and assist public water systems in recovering from public health threats. The emergency loan program ensures we are ready and able to award loans to water systems experiencing an emergency, so they can restore water service as quickly as possible. The emergency loan program will help water systems that lose critical drinking water services or facilities during an emergency and demonstrate substantial financial need according to DWSRF criteria. These funds will be available for construction, reconstruction, replacement, rehabilitation, temporary repair, rental of equipment, or improvement necessary to continue or restore operation of a public water system that is in violation of health and safety standards due to an emergency as defined above.

Applicants will submit a completed emergency application package to Health. All application material is available online. The emergency program will follow all general Office of Drinking Water administrative program policies and DWSRF grant and loan guidelines. We have made recent modifications to the emergency loan program to align with Department of Ecology's emergency loan program. The loan terms are:

- Ten-year repayment period.
- Project must be completed within two years.
- Maximum amount of \$500,000 per entity.
- Zero percent annual interest rate.
- One point five percent loan origination fee.

7D. Water Main Replacement Loan Program

A number of water systems expressed concerns with the inability to obtain DWSRF Construction Loan funding for water main replacement projects given the competitive nature of this funding opportunity. Because of the scoring and ranking of DWSRF Construction Loan project applications based on health risk being addressed, water main projects have not ranked high enough for funding in recent years. As example, six unfunded projects from the 2020 DWSRF Construction Loan cycle are water main replacement projects (see Appendix C). In an effort to support our water systems, the DWSRF program developed a new Water Main Replacement funding opportunity. This program is limited to not-for-profit community water systems serving fewer than 10,000 people with the following terms:

- One point seventy-five percent interest rate, no subsidy.
- One percent loan origination fee.

- Twenty-year repayment.

We accepted applications for this funding opportunity in August 2020 and received three applications. Two of the applications were ineligible due to lack of an approved planning document and the one eligible project declined the funding offer. We plan to offer Water Main Replacement funding with infrastructure stimulus funding given the large need in the state to replace aging water mains.

8. Year 25 Construction Loan Process and List

Bypass Process

We reserve the right to fund lower priority projects if higher priority projects are not ready or willing to proceed. In such instances, the state will comply with established bypass procedures. We may add projects to the List of Fundable Projects due to emergencies, such as an unanticipated system failure or a project needed to prevent an imminent health threat.

We *bypass*, or do not recommend funding for, applicants unable to demonstrate ability to repay the loan, applicants with insufficient loan security, or projects not ready to proceed. One project, Red Gate Mobile Home Park, was bypassed and deemed ineligible due to its inability to pass underwriting.

We offer technical assistance to help bypassed applicants meet the program requirements, so they can reapply in a future funding cycle, or provide information about other funding opportunities.

Amending the Project Priority List

We coordinate closely with loan applicants that make the project priority list. Some entities decline the loan due to factors, such as securing more favorable funding. If an approved project withdrew from the list, we move the highest-ranking unfunded project to the project priority list.

Loan Fees

Like many other states, Washington charges a nonrefundable 1.0 percent fee and we incorporate the loan fee into the total loan request. For example, we assess a loan fee of \$5,000 on a loan request for \$500,000—bringing the total loan to \$505,000. Washington retains the loan fee when the borrower makes the first loan draw. We structured our loan fee payment this way to have minimal effect on the size of annual loan payments. We waive the loan fee for subsidy recipients.

Washington deposits loan fees into a sub-account within the DWSRF dedicated account. On March 31, 2021, the cash balance of the loan fee account (Fund 05R) was approximately \$4 million. By statute, interest or other investment income accrued in this account remains in this account. We may withdraw funds from this account to reimburse state loan program administration. However, if the state determines that the balance of the loan fee account exceeds short- and long-term program administration needs, we may transfer a portion of the funds to the project loan account to be used for project loans.

We modified existing rules to allow the loan fees to be used for consolidation grants and other eligible set-aside activities.

Affordability Index

Affordability Index is one criteria used for determining subsidy eligibility for a project. The Affordability Index is based on actual median household income (MHI), existing average monthly water rate, proposed loan amount, and total connections. The following table provides more details on how subsidy, or principal forgiveness, can be awarded for projects.

Table 3
Loan terms for 2020 Construction Loan applications

Income Level of Households	Interest Rate and Forgiveness	Loan Fee	Loan & Fee Repayment Period
Water system is not economically disadvantaged	1.75% interest on loan	1.0% at loan execution*	20 years or life of the project, whichever is less
Water system with an affordability index (AI) between 1.5% and 2.0%	1.25% interest on loan	1.0% at loan execution*	20 years or life of the project, whichever is less
Water system with an AI between 2.01% and 3.5%	1.25% interest on loan, 30% principal forgiveness	**	20 years or life of the project, whichever is less
Water system with an AI of 3.51% or greater	1.25% interest on loan, 50% principal forgiveness	**	20 years or life of the project, whichever is less
Eligible restructuring, consolidation, and receivership projects	1.25% interest on loan, 50% principal forgiveness	**	20 years or life of the project, whichever is less

Restructuring and Consolidation Projects

Small water systems often face technical, managerial, and financial challenges. Many small water systems struggle to meet minimum state and federal requirements for providing safe and reliable drinking water for a variety of reasons.

Municipal Group A water systems are eligible for DWSRF funding for restructuring and consolidation projects that involve a change of ownership. Restructuring and consolidation projects acquire other noncompliant, failing, or struggling public water systems that have water quality problems or deteriorated infrastructure. Applicants also must demonstrate a history of sound drinking water utility management and meet the following criteria:

- Own at least one Group A public water system.
- Have a minimum of five years of experience as a Group A water system.
- Have an approved water system plan for the applicant system or be an approved satellite management agency.
- Have had no state or federal civil penalties in the past five years.
- Have received no unilateral enforcement orders from EPA or Health in the past five years.
- Have not had a system's operator license suspended or revoked in the past five years.
- Are current with our fee payment schedule.

We may consider other eligibility criteria on a case-by-case basis, including operating permit history, prior contract performance, and history of audit findings.

We use a portion of our infrastructure loan program to provide low-interest subsidized loans to help publicly owned water utilities acquire and rehabilitate troubled water systems. These loans fund activities such as:

- Repair or replacement of existing infrastructure, such as distribution piping, storage, backflow devices, or service meters.
- Construction of new water mains and connections necessary to acquire a small system.
- Installation of treatment, disinfection, or filtration.
- Developing a new water source or source rehabilitation.

For future consolidation projects, we will apply the affordability index criteria to all consolidation projects to determine subsidy eligibility.

Environmental and Cultural Review Process

All funded construction loan projects undergo environmental and cultural reviews.

The DWSRF Program modified the State Environmental Review Process to better align with the State Environmental Policy Act (SEPA) process the Department of Ecology administers. The revised process will require SEPA checklists associated with DWSRF projects to be on Ecology's SEPA website for public review and comment for 14 days. SEPA-exempt projects will continue to be required to perform public notification concurrent with the cultural review public notification. DWSRF construction loan recipients will still be required to perform public notification for all cultural reviews.

Prioritized Project List

See Appendix B for Washington's final Prioritized Project List for Year 25 of the DWSRF loan program. The list includes 20 eligible projects totaling \$51,659,131.

It may take additional months for funded applicants to address all loan requirements before each applicant signs its contract. Applicants will be contractually required to issue notice-to-proceed for construction within 18 months of contract execution and have 48 months following contract execution to complete their projects.

See Appendix C for loan applications not funded due to ineligibility, project did not score high enough to be funded, applicant withdrew, or applicant declined the loan offer.

Federal Financial Accountability and Transparency Act reporting

Washington is required to identify projects used to satisfy capitalization grant reporting requirements under the Federal Financial Accountability and Transparency Act (FFATA). See Table 4. As EPA requested, we will report only on DWSRF projects in an equivalent amount of each capitalization grant.

Table 4

Federal Fiscal Year 2021 State Revolving Fund Year 25 Capitalization Grant Federal Funding Accountability and Transparency Act Reporting List				
Total Federal Capitalization Grants				\$24,576,000
Projects and set-asides used for FFATA reporting				\$24,576,000
Loan #	Recipient	Project	Award	FFATA Reporting Amount
2020-3930	City of Issaquah	South Spar Booster Pump Station	\$5,050,000	\$5,050,000
2020-3898	City of Spokane	SIA Transmission Line Crossing Under I-90	\$5,050,000	\$5,050,000
2020-3921	City of Pasco	West Pasco Water Treatment Plant Improvements	\$5,050,000	\$5,050,000
2020-3914	City of Olympia	Boulevard Road Reservoir	\$2,658,320	\$1,807,440
Total Projects to Report			\$17,808,320	\$16,957,440
Set Asides Reserved				\$7,625,380

Set Aside Projects— FFATA List				
Contract #	Contractor Name	Description	Set aside	Amount
TBD	TBD	Provides assistance to local governments and municipal water systems (counties, cities, incorporated towns, and special purpose districts) to carry out source water protection projects to better protect high priority Group A sources.	5 of 15%	\$165,000
FFATA Set Asides Total				\$165,000

9. Public participation

To advertise the availability of the 2020 fall Draft DWSRF Funding List, we emailed stakeholders on the availability of the IUP. Stakeholders include all regulated water systems, consultants, operators, and state associations (such as water and sewer districts). We posted the IUP for public comment for 30 days on the DWSRF webpage:

doh.wa.gov/Portals/1/Documents/pubs/331-534.pdf

We did not receive any comments from stakeholders on the IUP. The Final IUP is posted on the DWSRF webpage at the above link.

10. Assurances and Certifications

1. The state has authority to establish a fund and operate the DWSRF Program according to the SDWA.

State Law

In 1995, the "drinking water assistance account" was created in the state treasury to allow the state to accept federal funds available for safe drinking water (RCW 70.119A.170). In 1997, this statute was refined to conform to the amended SDWA.

Health is authorized to establish the framework for DWSRF program administration and manage the program in Washington (RCW 70.119A.170).

DWSRF fund structure

The Legislature established a separate drinking water assistance account in the state treasury dedicated solely to using federal funds for the DWSRF. Health is authorized to establish subaccounts as necessary.

Health will use this drinking water assistance account solely for the DWSRF and account for all funds in the subaccounts separately, including capitalization grants, state match, loan repayment, and interest.

2. The state will comply with state statutes and regulations.

In addition to requirements in the SDWA, the state agrees to comply with all state statutes and regulations applicable to DWSRF funds, including the federal capitalization grant funds, the state match, interest earnings, repayments, and funds used for set-aside activities.

3. The state has the technical capability to operate the program.

Health will continue to employ program staff qualified to administer the DWSRF. Health staff includes a program manager experienced in water system design, operation, and regulation for the capital projects part of the program and a program manager with fiscal and contracting experience for the set-asides. The rest of the staff provide technical support (engineers, planners, or environmental specialists), and clerical or agency administrative support.

4. The state will accept capitalization grant funds according to a payment schedule.

The state agrees to accept grant payments according to payment schedules included with each grant application or grant amendment package. Each grant will include a separate payment schedule covering all funds used over the life of the grant. Staff will review and update these payment schedules at least annually. The state will receive federal funds according to EPA guidelines.

5. The state will deposit all capitalization grant funds into the project fund or set-aside account.

The state will deposit the capitalization grant into the project fund or the set-aside account, and maintain identifiable and separate accounts for all parts of the capitalization grant (RCW 70.119A.170).

6. The state will provide at least a 20 percent match of the capitalization grant.

The state will provide this match directly from the Public Works Assistance Account or from state bond proceeds.

7. The state will deposit net bond proceeds, interest, and repayments into the project fund.

The state will deposit all interest, dividends, earnings, repayments, and other proceeds into the project fund.

8. The state will use Generally Accepted Accounting Principles.

The state agrees to use Generally Accepted Government Accounting Standards for the DWSRF Program. The state's accounting and auditing procedures conform to the most current *Governmental Accounting and Financial Reporting Standards*, Governmental Accounting Standards Board, and the *Government Auditing Standards*, Government Accountability Office.

The fiscal management of the DWSRF Program will properly measure:

- (1) Revenues the DWSRF Program earns and other receipts, including, but not limited to, loan repayments, capitalization grants, interest, and state match deposits.
- (2) Expenses the DWSRF Program incurred, including, but not limited to, loan disbursements and other expenditures.
- (3) Assets, liabilities, and capital contributions made to the DWSRF Program.
- (4) The maintenance of federal and state capital contributions to the DWSRF Program.
- (5) DWSRF performance on short- and long-term goals.

9. The state will have the fund and set-aside account audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The Office of the Washington State Auditor or an external Certified Public Accountant will audit the project fund and set-aside account activities the Capitalization Grant funds annually to ensure there are provisions and guidance to prevent waste, fraud, and abuse of funds. The auditor will use U.S. Comptroller General auditing standards.

10. The state will adopt policies and procedures to ensure that each borrower has a dedicated revenue source for repayments (or if it is a privately owned system, demonstrate adequate security).

The state developed policies and procedures to ensure that borrowers have a dedicated source of revenue and that privately owned systems have adequate security. We discuss them in the state project loan guidelines. See Appendix A.

11. The state will commit and expend funds as efficiently as possible, in an expeditious and timely manner.

The Intended Use Plan directs the way the state will use funds. The state will commit and spend grant and state matching funds as efficiently as possible, in an expeditious and timely manner. Within one year of the grant payment, the state will enter binding commitments with the recipients equal to the total amount of each grant payment and proportional state match.

12. The state will use the funds according to the Intended Use Plan.

The Intended Use Plan directs the way the state will use the grant. The state opened the IUP up to public review and comment, and considered each comment before developing the final IUP. All comments are in the final IUP.

13. The state will provide EPA with a Biennial Report.

Health will produce annual reports on the uses of the DWSRF funds. The reports will cover both the project fund and the set-aside account activities. The annual reports submitted to EPA meet the biennial report requirements.

14. The state will comply with all federal crosscutting authorities.

We will perform all set-aside activities according to the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, and the Age Discrimination Act of 1975, and adhere to all other cross-cutters applicable to the set-aside activities.

The state developed policies and procedures to ensure that the state and all project fund loan recipients conform to applicable federal cross-cutter requirements. Required documentation will be provided for each of these requirements. To the extent necessary, cross-cutter requirements will be incorporated as conditions in the loan contracts.

15. Authorization and uses of the DWSRF Program

DWSRF fund authorization and uses are in:

- EPA Federal DWSRF Program guidelines.
- Washington State statute (Chapter 218, Laws of 1997, RCW 70.119A.170, RCW 43.155.050).
- Washington State DWSRF Loan Guidelines, Application, and Rule (WAC Chapter 246-296).

11. Appendices

Appendix A: Washington 2019 DWSRF Program guidelines

The 2020 fall DWSRF Construction Loan program guidelines and application are at doh.wa.gov/Portals/1/Documents/Pubs/331-196.pdf

Appendix B: Year 25 Funded DWSRF 2020 Construction Loans

Health Application	Water System ID	Final Score	Applicant Name	Project	County	Population	Loan Request Amount	Loan Total w/ 1.0 % loan fee (if applicable)	Subsidy Award	Comments	Project Description
2020-3904	06790	132	Kitsap Public Utility District #1	Bill Point, Island Utility, South Bainbridge Consolidation Phase 1	Kitsap	200	\$2,455,000	\$2,455,000	\$1,227,500	Consolidation project, qualifies for 50% principal forgiveness.*	Bill Point Water System recently experienced coliform bacteria in its water system and has aging infrastructure. The owners of Bill Point Water System petitioned Kitsap PUD to assume ownership of their water system. This project includes: replacing distribution lines within Bill Point Water System; development of a new source to replace Bill Point's well and to provide regional water supply; and manganese treatment at South Bainbridge's well to provide regional water supply. At the end of the project, Bill Point will be permanently owned, operated, and maintained by Kitsap PUD. Bill Point will be connected to the South Bainbridge regional water supply under Phase 2 work.
2020-3928	02043	128	PUD No. 1 of Jefferson County	Shine Plat System Consolidation	Jefferson	37	\$490,000	\$490,000	\$245,000	Consolidation project, qualifies for 50% principal forgiveness.*	Shine Plat Water System recently experienced coliform bacteria in its water system and has aging infrastructure. The owners of Shine Plat Water System have requested Jefferson PUD to assume ownership of their water system. This project allows Shine Plat Water System to connect to Bywater Water System and replace distribution lines within Shine Plat. At the end of this project, Shine Plat will be owned, operated, and maintained by Jefferson PUD.
2020-3922	13584	112	Mason County PUD No 1	Shadowood System Rehabilitation and Consolidation	Mason	154	\$2,074,712	\$2,074,712	\$1,037,356	Consolidation project, qualifies for 50% principal forgiveness.*	Shadowood Water System recently transferred ownership to Mason PUD and in July 2020 had E. coli detections in its water system, most likely due to substandard condition of the reservoir. This project will allow repairing existing reservoir; installing manganese treatment; and other system upgrades.
2020-3868	72807	111	Pend Oreille Public Utility District	River View Shores Arsenic Removal Project ADDITIONAL	Pend Oreille	21	\$82,000	\$82,000	\$24,600	AI=2.11, qualifies for 30% principal forgiveness.*	River View Water System currently exceeds the arsenic maximum contaminant level and also has high iron and manganese. The project includes piloting, design engineering, permitting, and constructing arsenic, iron, and manganese treatment system inside the existing pump house structure. The arsenic treatment system includes electrical upgrades, new controls, and associated piping. This funding will help Pend Oreille PUD complete the project as started under a previous DWSRF construction loan (2018-3573).
2020-3874	63750	107	City of Omak	Julia Maley Park Well Treatment Facility	Okanogan	4,940	\$2,012,546	\$2,012,546	0	AI=1.06, does not qualify for subsidy.	City of Omak completed a new well in 2016. After years of sampling, this well exceeds the arsenic maximum contaminant level. The well also has high iron concentrations that create aesthetic concerns. The City proposes to install treatment for the well.
2020-3898	83100	101	City of Spokane	SIA Transmission Line Crossing Under I-90	Spokane	227,509	\$5,050,000	\$5,050,000	0	AI=1.24 does not qualify for subsidy.	The City of Spokane acquired ownership of the Spokane International Airport (SIA) area in 1980 and provides water to this area. In May 2017, the City of Airway Heights (located near the airport) discovered firefighting foam contaminants (PFOS) in its wells. This crisis impacted at least 9,000 people and required the City of Spokane to supply Airway Heights with water through an existing intertie. Providing water to Airway Heights places large demands on the system and put the city at risk of being able to supply adequate flow within the airport pressure zone area during peak usage. In order to meet current demands for both Spokane and Airway Heights, an additional transmission main is needed.
2020-3921	66400	75	City of Pasco	West Pasco Water Treatment Plant Improvements	Franklin	77,540	\$7,615,400	\$5,050,000	0	AI=0.67 does not qualify for subsidy.	Pasco needs to install redundant treatment trains at its West Pasco surface water treatment plant to allow servicing and maintenance of its other surface water treatment plant while continuing to meet system demands. This project allows installation of redundant treatment trains along with needed improvements of backwash effluent and residuals handling facilities.
2020-3929	00050	72	City of Aberdeen	Fairview Reservoirs 1 & 2 Floating Cover Replacement Project	Grays Harbor	17,942	\$4,161,812	\$4,161,812	0	AI=0.78 does not qualify for subsidy.	The existing floating covers on two of Aberdeen's finished water reservoirs are in need of replacement and identified as a significant deficiency in a recent sanitary survey. This project allows replacement of the covers and associated liners.
2020-3866	27900	68	Thurston PUD	Glen Alder Consolidation and Mainline Replacement	Thurston	31	\$517,480	\$517,480	\$258,740	Consolidation project, qualifies for 50% principal forgiveness.*	Glen Alder homeowners association requested Thurston PUD to acquire their water system. The water system infrastructure was installed in the 1970s and needs replacement. Project improvements include: replacing distribution pipe; replacing existing meters; and new back-up generator. Upon project completion, Glen Alder water system will be owned, operated, and maintained by Thurston PUD.

Health Application	Water System ID	Final Score	Applicant Name	Project	County	Population	Loan Request Amount	Loan Total w/ 1.0 % loan fee (if applicable)	Subsidy Award	Comments	Project Description
2020-3867	15502	68	Thurston PUD	Country Club Estate Consolidation and Mainline Replacement	Thurston	103	\$756,400	\$756,400	\$378,200	Consolidation project, qualifies for 50% principal forgiveness.*	Country Club Estates homeowners association requested Thurston PUD to acquire their water system. The water system infrastructure was installed in the 1970s and needs replacement. Project improvements include replacing distribution pipe and existing meters. Upon project completion, Country Club Estates water system will be owned, operated, and maintained by Thurston PUD.
2020-3915	66578	68	Thurston PUD	Pattison Consolidation and Mainline Replacement Project	Thurston	4,091	\$3,141,500	\$3,141,500	\$1,570,750	Consolidation project, qualifies for 50% principal forgiveness.*	Pattison Water Company has signed an agreement to transfer its water system to Thurston PUD. A number of infrastructure improvements are needed to ensure safe and reliable drinking water: new well to provide adequate water quantity; new reservoir; and replacing two existing booster pump stations.
2020-3924	13645	67	Mason County PUD No 1	Canal View System Consolidation and Upgrades	Mason	30	\$468,260	\$468,260	\$234,130	Consolidation project, qualifies for 50% principal forgiveness.*	Mason PUD acquired Canal View water system in 2019 and this project is a continuation of improvements since assuming ownership. Project improvements include replacing distribution pipe; rehabilitating the existing pump house; and installing a new reservoir to improve system reliability.
2020-3862	79500	66	Public Utility District No. 1 of Skagit County	Judy Reservoir to Mount Vernon Transmission Line Ph. II	Skagit	82,542	\$16,858,707	\$5,050,000	0	AI=1.27, project does not qualify for principal forgiveness.	This project replaces the undersized and failing transmission main that is the main water supply source for greater Mount Vernon area. The transmission main is over 5 miles long and has been partially funded by Public Works Assistance Account loan. A portion of the pipeline will coincide with Centennial Trail work overseen by Skagit County Parks.
2020-3872	59700	60.5	Nob Hill Water Association	Nob Hill Water Association Well 8 - Phase 2	Yakima	29,685	\$1,426,092	\$1,426,092	0	AI=1.15, project does not qualify for principal forgiveness.	This project is a continuation of a project funded in 2018. Nob Hill's existing water system is supplied by five groundwater wells with a maximum combined capacity of 8,050 gallons per minute (gpm). The existing system has sufficient source capacity with all existing sources operational, but is unable to meet current demands if either Well #3 or Well #5 is out of service. This new well is needed to improve system resiliency and meet supply demands with the largest well out of service.
2020-3893	03350	60	City of Auburn	Coal Creek Springs Transmission Main Replacement	King	58,864	\$3,737,000	\$3,737,000	0	AI=0.81, project does not qualify for principal forgiveness.	Coal Creek Springs (CCS) is the City's largest water supply source, accounting for about 60% of the total water produced for the City. As a gravity-operated water source, CCS requires minimal energy usage and maintenance. Approximately 870 feet of the original transmission main that was constructed in 1925 crosses underneath the White River. A 2014 evaluation of this portion of the transmission main raised concern about its structural integrity. The City proposes to construct a pedestrian bridge with a second, parallel transmission water main to cross the river. Once the new transmission main is constructed and in service, the existing steel main pipe will be inspected and rehabilitated, if necessary, to improve its structural integrity. These two parallel transmission mains will provide the redundancy and the transmission capacity to ensure that service from this critical facility is not interrupted.
2020-3926	96601	59	Whitworth Water District No. 2	WSA 3 to 8 Transmission Main	Spokane	26,883	\$6,393,300	\$5,050,000	0	AI=0.80, project does not qualify for principal forgiveness.	Whitworth Water District's approved Water System Plan established the need to move water sources within the Spokane Valley Rathdrum Prairie Aquifer (Zone 3) to the less desirable Little Spokane River Aquifer (Zone 8 and 9). This proposed transmission main project routes water from the Zone 3 sources to the Zone 8 water system area and greatly improves system resiliency. This project consists of installing approximately 17,750 feet of 24" ductile iron waterline. All proposed work is within the existing Spokane County and WSDOT Rights of Way.
2020-3896	16589	57	Kiona West Heights Association	KWHA Well Replacement	Benton	77	\$1,234,500	\$1,234,500	\$617,250	AI=3.65, project qualifies for 50% principal forgiveness.*	Kiona West Height's existing well is currently failing and beyond rehabilitation based on a recent well inspection. This is the only well serving Kiona West Heights and a new well is needed to supply adequate water for customers. The proposed project is to drill and equip a new well, new well house, and chlorination. The old well will be kept as a backup. This project greatly improves system resiliency.
2020-3930	36350	55.5	City of Issaquah	South Spar Booster Pump Station	King	32,603	\$5,050,000	\$5,050,000	0	AI=0.38, project does not qualify for principal forgiveness.	The City is proposing to construct a drinking water booster pump station and approximately 8,000 linear feet of water transmission lines within city limits just north of Interstate 90. The proposed project will provide redundant water transmission facilities to over 5,000 residents and Swedish Hospital, which serves as a critical care 135-bed facility.
2020-3914	63450	55	City of Olympia	Boulevard Road Reservoir	Thurston	74,544	\$2,658,320	\$2,658,320	0	AI=0.57, project does not qualify for principal forgiveness.	The City of Olympia's 2.4 MG Boulevard Road Reservoir is a 100-foot-tall, 66-foot-diameter welded steel standpipe constructed in 2001. The City proposes to rehabilitate the Boulevard Road Reservoir to address deficiencies in interior coating systems and structural components, and to complete recommended seismic retrofits. The project will prolong service life and enhance system reliability.

Health Application	Water System ID	Final Score	Applicant Name	Project	County	Population	Loan Request Amount	Loan Total w/ 1.0 % loan fee (if applicable)	Subsidy Award	Comments	Project Description
2020-3912	63600	47**	Olympic View Water and Sewer District	2020 Watermain Replacement	Snohomish	15,086	\$1,193,509	\$1,193,509	0	AI=0.35, project does not qualify for principal forgiveness.	This project is to replace over 2,900 linear feet of substandard and leaking pipes within the District. The majority of this project is being done in conjunction with a stormwater project in the Twin Maples area of Woodway. Olympic View is taking the lead in the joint project with the Town of Woodway so that stormwater and water main work can be done at the same time to minimize the impact on the neighborhood. In addition this is an area where the City of Edmonds will be completing asphalt replacement in 2022.
TOTALS							\$69,736,963	\$51,659,131	\$5,593,526		

*All projects with subsidy receive reduced interest rate of 1.25 percent and have the loan origination fee waived.

**Per 2020 DWSRF Construction Loan Guidelines, water main replacement projects are funded when project coincides with another infrastructure improvement project.

Appendix C: Year 25 Unfunded, Ineligible or Withdrawn DWSRF 2020 Construction Loans

Health Application	Water System ID	Score	Water System Name	Project	County	Population	Request	Project Description
2020-3871	20500	104	City of DuPont	PFAS Treatment for Hoffman Hill and Bell Hill Wells	Pierce	12,856	\$5,974,430	Based on recent testing, the City of DuPont discovered PFAS contaminant levels in supply wells that exceed the current proposed State Action Levels. This project allows DuPont to install treatment to remove the PFAS contaminants. Project withdrawn- DuPont received a legislative appropriation to fund entire project.
2020-3902	71614	103	Red Gate Community LLC	Red Gate MHP Water System New Source	Pierce	25	\$181,800	Red Gate MHP exceeds the maximum contaminant levels for disinfection byproducts. This project allows Red Gate MHP to abandon its source and connect to Summit Water for safe drinking water. Project did not pass underwriting or financial capacity review.
2020-3919	07610	78	Boistfort Valley Water	Adna Water Treatment Plant (WTP) Improvements	Lewis	2,389	\$1,972,732	Boistfort's existing Adna surface water treatment plant needs to be relocated out of the floodplain. This project will allow relocation of the treatment plant along with flood-proofing the facility. This treatment plant is vital to have on-line to allow Boistfort to meet maximum daily demands. Ineligible due to lack of current, approved Water System Plan.
2020-3931	07610	78	Boistfort Valley Water	New Chehalis River Intake	Lewis	2,389	\$1,083,225	Boistfort obtained a new surface water right withdrawal location on the Chehalis River to allow full utilization of the Adna surface water treatment plant. This project allows construction of the new intake and transmission main for the new water right withdrawal location. Ineligible due to lack of current, approved Water System Plan.
2020-3914	63450	55	City of Olympia	Boulevard Road Reservoir	Thurston	74,544	\$2,658,320	The City of Olympia's 2.4 MG Boulevard Road Reservoir is a 100-foot-tall, 66-foot-diameter welded steel standpipe constructed in 2001. The City proposes to rehabilitate the Boulevard Road Reservoir to address deficiencies in interior coating systems and structural components, and to complete recommended seismic retrofits. The project will prolong service life and enhance system reliability. Project did not score high enough for funding.
2020-3913	63600	55	Olympic View Water and Sewer District	228th Street Production Well	Snohomish	15,086	\$2,384,832	This project consists of constructing two water production wells and a ground water treatment plant that provides treatment for up to 500 gpm. This project creates redundancy in the event of a loss of water service from the City of Seattle and insure the ability to provide water to District customers in the event of a regional emergency where restoration of water service may require an extended period of time. Project did not score high enough for funding.
2020-3927	00510	54	Mason County PUD No 1	Agate Beach Reservoir & Booster Station	Mason	40	\$544,576	This project improves system resiliency by constructing a reservoir to provide water during a power outage. The project also includes a booster pump station. Project did not score high enough for funding.
2020-3916	40529	54	City of Port Orchard-McCormick Woods	Well 11 Development, Treatment, and Booster Pump Station	Kitsap	14,238	\$5,050,000	Port Orchard needs a reliable deep well to replace three existing shallow wells with diminished capacity that serve its McCormick Woods water system. Port Orchard has drilled the deep well and the requested funding would allow the new well to be equipped, including pump house, chlorination, and additional treatment if necessary. Ineligible due to lack of current, approved Water System Plan.
2020-3932	97650	53	City of Bainbridge Island	Reservoir 1 and 2 Seismic Upgrades	Kitsap	12,074	\$12,937,393	This project allows the City to retrofit two of its finished water reservoirs to meet seismic codes. Project did not score high enough for funding.
2020-3917	AB292	53	PUD No. 1 of Jefferson County	Quilcene Water Tank Project	Jefferson	117	\$1,528,500	Jefferson PUD needs to replace the existing Quilcene reservoir that is undersized and does not meet seismic standards. A study indicated a new reservoir and booster pump station are necessary to best serve the Quilcene area and school. Ineligible due to lack of current, approved Water System Plan.
2020-3869	86294	48	Pend Oreille Public Utility District	Sunvale Acres Distribution Replacement Project	Pend Oreille	65	\$548,975	This project includes replacement of 4,620 feet of 44-year-old pipe and inadequate under sized water mains. Project did not score high enough for funding.
2020-3918	43600	45	Mason County PUD No 1	Lake Arrowhead Mainline Replacement - Entire System	Mason	45	\$1,263,184	Lake Arrowhead water system has over 50% distribution system leakage due to the age of the existing mainline. Mason PUD received DWSRF funding in 2019 to replace the 2,600 linear feet. Now, the PUD requests funding to replace the remaining mainline to reduce future water loss. Project did not score high enough for funding.
2020-3901	13500	44	City of Cle Elum	Railroad Street Watermain Upsizing	Kittitas	44	\$454,581	This project allows Cle Elum to replace an old, undersized 4-inch steel pipe with a 12-inch pipe to improve hydraulics and flow to the commercial and industrial area of Cle Elum. Project did not score high enough for funding.
2020-3907	47283	44	Roosevelt Lake Ranch Water System	Roosevelt Lake Ranch Water System Upgrades and Improvements	Lincoln	44	\$2,049,160	This project replaces old water mains and loops the distribution system to improve system hydraulics. In addition, the pump house controls will be updated. Project did not score high enough for funding.
2020-3906	29000	44	Town of Granger	Railroad Avenue and Sunnyside Avenue	Yakima	3,905	\$1,018,194	Granger proposes to replace existing, aging, and deteriorated 4-inch watermain piping with new 8-inch and 12-inch PVC piping. Ineligible due to lack of current, approved Water System Plan.

Health Application	Water System ID	Score	Water System Name	Project	County	Population	Request	Project Description
				Watermain Replacements				
2020-3920	00510	44	Mason County PUD No 1	Agate Beach Mainline Replacement	Mason	40	\$340,762	The Agate Beach water system has distribution system leakage above 40%. This project will replace aging, undersized 2" mainline with 6 " PVC. Project did not score high enough for funding.
2020-3925	51920	44	Mason County PUD No 1	Union Mainline Replacement	Mason	612	\$328,475	The PUD needs to replace approximately 2,204 linear feet of 2" PVC Mainline along Highway 106 that feeds Union Water System customers. The current mainline is old and not able to adequately withstand the pressurized water without cracking and creating large leaks in the system. PUD plans to replace the failing mainline with 4" HDPE. Project did not score high enough for funding.
2020-3910	43400	17	Town of LaCrosse	Water Meter Replacement Project	Whitman	297	\$233,714	The project replaces all water meters with remote read meters with backflow protection. Project did not score high enough for funding.
Total							\$38,243,627	