

Washington State Drinking Water State Revolving Fund

Intended Use Plan

For Year 23

Federal Capitalization Grant

DOH 331-534 July 2019



On the cover: The City of West Richland Reservoir Project under construction.



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Contents

1.	INTRODUCTION	1
2.	CONGRESSIONAL PRIORITIES.....	2
	Table 1.....	3
3.	WASHINGTON'S PROGRAM GOALS.....	4
4.	SET-ASIDE ACTIVITIES	7
5.	CAPITAL LOAN FUNDING.....	10
	Table 2.....	12
6.	AMOUNTS TRANSFERRED BETWEEN THE DWSRF AND THE CWSRF	12
7.	CRITERIA AND METHOD FOR DISTRIBUTING CAPITAL LOAN FUNDS.....	12
	7A. Construction Loans	13
	7B. Preconstruction Loans	15
	7C. Emergency Loan Program	15
8.	FEDERAL FINANCIAL ACCOUNTABILITY AND TRANSPARENCY ACT REPORTING	16
	Table 3.....	17
9.	YEAR 23 CONSTRUCTION LOAN PROCESS AND LIST	18
	Table 4.....	19
10.	PUBLIC PARTICIPATION	22
11.	ASSURANCES AND CERTIFICATIONS	22
12.	APPENDICES.....	26
	Appendix A: Washington 2016 DWSRF Program guidelines	26
	Appendix B: Year 23 Funded DWSRF Loan Applicants List	27
	Appendix C: Year 23 Drinking Water System Repair and Consolidation (DWSRC) Funded Applicants*	29
	Appendix D: Year 23 Ineligible, Unfunded or Withdrawn DWSRF Loan Applicants.....	30

Year 23 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. Historically, Health administered the DWSRF Program jointly with the Public Works Board (Board) and the Department of Commerce (Commerce). However, on July 1, 2018, Health became solely responsible for the entire DWSRF Program.

Washington's Year 23 Intended Use Plan

In federal fiscal year 2019 (FFY 2019), 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 \$24,583,000 from EPA to fund capital improvement projects that were ranked and placed on the priority list for state fiscal year (SFY) 2020 (July 1, 2019–June 30, 2020) and nonconstruction 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 \$21,878,870 to use for construction and nonconstruction activities.

Health plans to award capital construction funds to eligible water systems during the summer of 2019. See Table 2 for detailed information. As of March 31, 2019, Washington has a cash balance of \$4,203,087 (generated from the 1 percent loan origination fees) for ongoing administration of the revolving fund loan program.

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.
- 2018 DWSRF prioritized-project funding list.

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 and municipal refinance projects the lowest priority for funding.

Projects necessary to ensure compliance with SDWA requirements. We review all applications with respect to compliance with the SDWA. 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 affordability of their rates. This year we allowed school districts 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 applied 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, they don't supply water to households; and therefore, they can't meet the federal requirement to base affordability on a "per household basis." To calculate affordability bonus points, we use the Affordability Index, a formula that considers an applicant's median household income, operational expenses, and water rates.

Provide at least 26 percent of the DWSRF Capitalization Grants as loan subsidy to eligible recipients. We have given needy systems about \$39,375,755 million in subsidies since 2010 (Table 1, page 3).

For the 2018 funding cycle, the basic loan was a 20-year fixed-rate loan with 2.25 percent interest. However, those projects receiving subsidy were assigned a lower interest rate of 1.75 percent. Starting with the highest scoring applicants:

- Water systems with an Affordability Index of 2.01–3.50 percent will receive 30 percent of their loan as principal forgiveness.

- Water systems with an Affordability Index of 3.51 percent or more will receive 50 percent of their loan as principal forgiveness.
- 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 first two screening methods above.

To sustain water systems in Washington over time, the highest scoring municipal Group A water system applicants that demonstrate a history of sound drinking water utility management will receive 50 percent principal forgiveness for:

- Restructuring and consolidation projects that involve a change of ownership.
- Restructuring and consolidation projects that involve acquiring other noncompliant, failing, or struggling public water systems that have water quality problems or deteriorated infrastructure.

Using the above-listed criteria, the minimum subsidy award of 26 percent of the capitalization grant could not be met. The decision was made to award additional principal forgiveness to subsidy-eligible projects to meet the required subsidy award. This decision was deemed to have minimal effects on the fund as opposed to other options available.

Table 1

Summary of Washington Subsidy Awards							
SRF/ SFY Year	Cap Grant Amount	Subsidy Required	Subsidy Committed	% Subsidy Committed	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	29%	1 project open, still drawing
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%	\$3,569,184	18%	3 projects open, still drawing
19/ 2016	\$19,600,000	20-30%	\$ 3,973,237	20%	\$3,573,434	18%	2 projects open, still drawing
20/ 2017	\$18,233,000	20-50%	\$ 3,764,308	21%	\$3,037,108	15%	4 projects open, still drawing
21/ 2018	\$18,233,000	20-50%	\$ 4,446,769	24%	\$333,659	2%	5 projects open, still drawing
22/ 2019	\$24,815,000	20-50%	\$ 5,878,205	24%	\$0	0%	4 projects open, still drawing
23/ 2020	\$24,583,000	26-56%	\$6,451,900	26%	N/A	N/A	Contracts need to be executed
Total	\$228,312,000		\$57,904,251		\$39,375,755		

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

- **Ensure successful transition of loan and fund management functions from the Department of Commerce to the Department of Health.**
 - Health's new Washington Loans and Tracking (WALT) system is developed. WALT includes an online funding application, portal for external clients to view and submit information, and database for all loan-related information. Historic loan information from the Public Works Board has been migrated into this database.
 - Amend and transfer all loan agreements since inception of the program. Loan reassignments and file transfers are completed.
 - Establish effective reconciliation processes and internal controls.
- **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.
 - Monitor effects of loan repayment changes recently implemented and consider increasing loan repayments to twice per year, which would help stabilize the fund's cash flow while also providing a less burdensome payment structure to our clients.
- **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.

- **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 (RCAC) 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 Commerce and the Department of Ecology on small system training on infrastructure funding. We offer these trainings at four locations around the state each year.
- **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 WALT to internal and external stakeholders.
 - Continue to implement construction site visits and inspections during construction.
 - Provide one-on-one contract training with each applicant approved for a construction loan.

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 leveraging, 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 the DWSRF using all of the relevant operating assumptions for the program.
- **Acknowledge and address household affordability constraints.**
Strategically use the DWSRF subsidy provision and any applicable set-aside funds to maximize the program's effect on achieving affordable compliance. 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.

- **Use DWSRF funds to promote resilient, energy-efficient infrastructure.**
 - Require 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.
- **Continuously improve the DWSRF Program so we are more efficient and better able to serve our customers.**
 - Improve the online application process.
 - Educate water systems about the DWSRF construction loan program before each loan cycle.
 - Maintain emergency funding to assist systems affected by unforeseen events and ensure they continue to maintain public health protection.
- **Re-establish the Consolidation Feasibility Study Grant funding program.**

The Consolidation Feasibility Study Grant funding program was temporarily suspended in 2017 due to budget issues associated with the state Legislature not passing a capital budget. This grant program was historically funded through set-asides. Our stakeholders found great value in these small grants (up to \$30,000 per project) that allowed the study of potential transfer of ownership and consolidation projects to address compliance or capacity issues. We intend to offer the Consolidation Feasibility Study Grant program in SFY 2020 using our 1 percent loan origination fee fund.

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 15 DWSRF-eligible projects from our fall 2018 loan cycle with 69 percent of the capitalization grant funding, for a total award of about \$19.9 million. In addition, we will award about \$1.5 million to existing loan holders to assist with increased construction costs associated with escalating pipe, equipment, and labor costs. All projects intend to address compliance or public health issues.
- **Fund utilization rate (cumulative loan agreement dollars compared with the cumulative funds available for projects) for the DWSRF loan fund.** We will calculate this at the end of each state fiscal year (June 30). We expect Washington's fund utilization rate to exceed national performance targets. The fund is experiencing cash deficits through much of the year. This situation was influenced by the push to reduce and eliminate unliquidated obligations. During that time, we encouraged loan holders to progress and complete construction. Additionally, our cash flow modeling tool used historical loan draw information for projections. The surge in

projects started and completed as described above was not factored in, which resulted in significant over obligation of the fund. The fund is projected to be solvent in the second half of 2019. We have contracted with PFM. They are currently conducting a full analysis of short- and long-term revenues and obligations. PFM will provide a variety of options for leveraging the fund to produce an increase in capital to correct the cash deficit situation. They will continue our cash flow modeling to assist us in our strategic and tactical decision-making process.

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 may provide set-aside assistance. Funds from these capitalization grants will be used to fund activities during more than one state fiscal year. However, to keep unliquidated obligations at a minimum, the state is currently on a track that spends each set aside fully 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 and 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 2020. Washington intends to use 31 percent of its 23rd year capitalization grants for current and future set-aside activities. We will begin using program administration set-aside funds in SFY 2020. Any remaining set-aside funds will be used in SFY 2021. 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 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 system 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, and financial and technical assistance, which helps to ensure systems meet Consumer Confidence Report and various water quality monitoring requirements.
- Develop technical regulations, program plans, policies, and guidelines.

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.

Capacity Development and Water System Sustainability

Washington's Capacity Development Program is one of the strongest in the nation. We will use the 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.

We will 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 now and into the future. Washington will reserve 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.
- Conducting sanitary surveys and providing related technical assistance to small systems.
- Providing specific technical assistance (such as coliform monitoring and follow-up requirements and Comprehensive Performance Evaluations) 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.
- 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.
- Implementing a coordinated approach to water system asset management programs 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 in order 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.
- Working with partners to communicate the value of safe and reliable drinking water, so the people of Washington understand and support investments in our water systems.

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 program 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 source water protection Intranet and Internet applications; and providing source water protection data, information, mapping, analysis, and GIS support.
- Reviewing local government regulations and identifying modifications that will provide improved 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.
- Coordinating and collaborating with other agencies on plans or projects to improve water quality of all sources of drinking water.
- Reviewing and commenting on water quality and quantity regulations at all levels of government that could affect the 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.
- Providing training across the state for water system operators, owners, and decision makers to increase knowledge about source water protection, emerging contaminants, and watershed health.
- Working with communities to protect the quantity and quality of their source water.

5. Capital Loan Funding

In November 2018, we received, reviewed, and ranked 31 construction loan applications. We offered DWSRF loans only to applicants that ranked high enough to be placed within the available funding target of \$20 million for the fall 2018 construction loan cycle. Health decided to award about \$19.9 million in new projects and make \$1.5 million available for construction cost overruns associated with existing construction loans.

In addition, the 2018 state budget included \$5,000,000 for Drinking Water System Repairs and Consolidation (DWSRC) projects (formerly known as Water System Acquisition and Rehabilitation Program (WSARP)). We made DWSRC funding available for consolidation, restructuring, or receivership projects that result in public ownership of the water system (town, city, county, public utility district, or water district). Consolidation, restructuring, and receivership projects are eligible for DWSRC funding if the water system being consolidated, restructured or received under court order is a community Group A system serving fewer than 10,000 people or Group B system serving residences. In addition, the consolidated, restructured, or received system must become a community Group A system by the end of the project. We made this funding available for receivership projects through the DWSRF Emergency Loan and Funding program along with the 2018 DWSRF Construction Loan funding cycle for consolidation projects, with 3 percent reserved for administrative costs. With \$4.85 million available to award to water systems, \$500,000 was awarded to Pierce County for the Kapowsin Water District receivership through emergency funding and the remaining \$4.35 million was awarded to consolidation projects as listed in Appendix C. Combining the state appropriated Drinking Water System Repairs and

Consolidation Funding with the DWSRF construction loan funding allowed additional projects to be funded and the ability to co-fund projects that exceeded the consolidation grant funding.

Appendix B shows Washington's recommended 2018 Fall DWSRF Draft Priority Project List for year 23 SRF funding. We intend to execute loan contracts and disburse funds to these projects in July 2019, at the earliest, depending on release for the capitalization grant funding. As seen in Appendix B, subsidy-eligible projects received more than the advertised amount of principal forgiveness in the 2018 DWSRF Construction Loan Guidelines. The decision was made to award additional principal forgiveness to subsidy-eligible projects to meet the required subsidy award (minimum of 26 percent of the capitalization grant). This decision was deemed to have minimal effects on the fund as opposed to other options available.

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 labor, we decided to reserve \$1.5 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 \$300,000. We will award additional funding at 2.25 percent interest and 1 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.

Table 2

Washington State Drinking Water State Revolving Fund Financial Status and Intended Uses of Funds Year-23 Federal Capitalization Grants		
CATEGORY	AVAILABLE FUNDS APPLICATION YEAR 23	INTENDED USE (\$)
Total Available		
Federal Capitalization Grant	\$24, 583,000	\$24,583,000
20% State Match	\$5,500,000	\$5,500,000
Total	30,083,000	30,083,000
Set-Asides:		
Program Administration (4%)	\$983,320	\$983,320
State Program Management (10%)	\$2,458,300	\$2,458,300
Small System Technical Assistance (2%)	\$491,660	\$491,660
Local Assistance & Other State Programs (15%)	\$3,687,450	\$3,687,450
Total Set-Asides	\$7,620,730	\$7,620,730
Project Funds Available From Year 23 Capitalization Grant + Match	\$22,462,270	\$22,462,270
Total Available for New Project Loans	\$22,462,270	\$22,462,270
Total Project Funds and Set-Aside Funds	\$30,083,000	\$30,083,000

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-23 of the DWSRF Program.

7. Criteria and Method for Distributing Capital Loan Funds

Money in the DWSRF Project Fund can be used for:

- New construction project loans. We allocated about \$19.9 million.
- Construction over-run costs. We allocated \$1.5 million.
- Emergency loans. We allocated \$1 million.
- Reimbursements for executed construction loan activities.

7A. Construction Loans

Loan applications

We accepted applications for the Year-23 DWSRF Loan Program from October 1 to November 30, 2018. We received 31 applications requesting about \$41 million.

DWSRF staff provided information and technical assistance on the application process at workshops in multiple locations and through two webinars. We sent an email about the training opportunities and the 2018 DWSRF guidelines and application to all eligible public water systems and placed a notice in our *Water Tap* newsletter. Systems could get the guidelines online, request hard copies, or get them as electronic email files.

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 two projects were ineligible due to lack of proper planning documents or outstanding audit findings from their most recent audit. We gave those applicants 10 days to appeal our determination; we received no appeals. See ineligible and unfunded projects in Appendix D.

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 22, 2019, 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.

We scored projects that provided information that would qualify them for subsidy under our criteria with all other projects. Then we pulled the highest scoring subsidy projects into a separate list until we had more than sufficiently met the mandated subsidy award threshold of 26 percent of the capitalization grant. To meet this subsidy award threshold, we awarded more than the advertised principal forgiveness to those projects deemed as subsidy-eligible. We decided it was in the best interest of the fund to limit subsidy award to those systems that were deemed subsidy-eligible per the criteria provided in Table 4, as advertised in the DWSRF 2018 Construction Loan Guidelines.

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 2018 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:

- Allowed for compliance with drinking water regulations
- 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). The WSP must be less than 6 years old on November 30, 2018.
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 all 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 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

We will 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. The maximum award of the preconstruction loan is \$300,000 and the preconstruction loan term is six years. Future DWSRF construction loan funding cycles will grant bonus points to entities that received a preconstruction loan.

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.

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.

For purposes of this program, “emergency” refers to an event like a natural disaster 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.

When we determine an emergency exists and emergency funding is available, we may award an emergency loan to an eligible public water system. These funds will be available for construction, reconstruction, replacement, rehabilitation, temporary repair, 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. To date, we have not executed an emergency loan; but we want to continue to make this loan available if needed during an emergency.

We also made state funding available to assist with receivership projects, which have been classified as an emergency. The state Legislature appropriated \$5 million for Drinking Water System Repairs and Consolidation (DWSRC) funding (formerly known as Water System Acquisition and Repair, or WSARP), and a portion of this funding is available through the DWSRF emergency funding program for receivership projects. Jurisdictions court-appointed to receive a failing water system are eligible to receive up to \$500,000 of state funding to assist with improvements necessary to provide safe and

reliable drinking water. This is all grant funding and we will award it based on the affordability index of the system being received.

Availability of Emergency funds

Emergency awards will be available to eligible communities for projects that achieve the greatest mitigation of health risk. During the period of this IUP, Washington intends to make \$1 million available to water systems.

Emergency Fund Application process

Applicants will submit a completed emergency application package to Health. All application material is available online.

Emergency Loan terms

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:

- 10-year repayment period.
- Project must be completed within two years.
- Maximum amount of \$500,000 per entity.
- 0 percent annual interest rate.
- 1 percent loan origination fee.

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 3. As EPA requested, we will report only on DWSRF projects in an equivalent amount of each capitalization grant.

Table 3

Federal Fiscal Year 2019 State Revolving Fund Year 23 Capitalization Grant Federal Funding Accountability and Transparency Act Reporting List				
Total Federal Capitalization Grants			\$24,583,000	
Projects and set-asides used for FFATA reporting			\$24,583,000	
Loan #	Recipient	Project	Award	FFATA Reporting Amount
2018-3584	Liberty Lake Sewer and Water District No. 1	Green Ridge Water System Consolidation Project	\$1,711,309	\$1,711,309
2018-3601	McKee's Evergreen Beach Association	Arsenic Treatment and Water System Improvements	\$849,915	\$849,915
2018-3615	Olympic Water and Sewer Inc.	Arsenic Treatment Facility for Wells	\$2,131,100	\$2,131,100
2018-3597	City of Spokane	Spokane International Airport System Additional Reservoir	\$3,030,000	\$3,030,000
2018-3576	City of Auburn	Lead Gooseneck Replacement	\$3,030,000	\$3,030,000
2018-3585	Liberty Lake Sewer and Water District No. 1	Eastside Water System Improvement Project, Phase 2	\$2,660,500	\$2,660,500
2018-3600	Nob Hill Water Association	Nob Hill Water Association New Well 8	\$3,030,000	\$3,030,000
2018-3582	Woodland Heights Maintenance Association	Pump House and Water Distribution System Upgrade	\$734,094	\$519,446
Total Projects to Report			\$17,176,918	\$16,962,270
Set Asides Reserved				\$7,620,730

Set Aside Projects—Draft 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%	\$162,000
		FFATA Set Asides Total		\$162,000

8. Year 23 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. We did not bypass any applicants this year.

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. In the past, if an approved project withdrew from the list, we moved the highest-ranking unfunded project to the project priority list. We elected not to use this award model this year in an effort to reserve more funds for next year's construction loan cycle.

Loan Fees

Like many other states, Washington charges a nonrefundable 1 percent fee and we incorporate the 1 percent 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, 2019, the cash balance of the loan fee account (Fund 05R) was \$4,203,087. By statute, interest or other investment income accrued in this account remains in this account. We may withdraw funds from this account only 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 have modified existing rules to allow the loan fees to be used for consolidation grants and other eligible set-aside activities.

Affordability Index

The Affordability Index is based on actual median household income (MHI), proposed loan amount, annual expenses including operation and maintenance, existing debt and revenues, and total connections.

Table 4
Loan terms for 2018 project loan applications

Income Level of Households	Interest Rate and Forgiveness	Loan Fee	Loan & Fee Repayment Period	DWSRC Funding for Consolidation, Restructuring, and Receivership Projects***
Water system is not economically disadvantaged	2.25% interest on loan	1% at loan execution*	20 years or life of the project, whichever is less	\$0
Water system with an affordability index between 1.5% and 2.0%	1.75% interest on loan	1% at loan execution*	20 years or life of the project, whichever is less	Up to \$100,000
Water system with an affordability index between 2.01% and 3.5%	1.75% interest on loan, 30% principal forgiveness	**	24 years or life of the project, whichever is less	Up to \$250,000
Water system with an affordability index of 3.51% to 4.5%	1.75% interest on loan, 50% principal forgiveness	**	24 years or life of the project, whichever is less	Up to \$350,000
Water system with an affordability index of 4.51% or higher	1.75% interest on loan, 50% principal forgiveness	**	24 years or life of the project, whichever is less	Up to \$500,000
Eligible restructuring, consolidation, and receivership projects	1.75% interest on loan, 50% principal forgiveness	**	24 years or life of the project, whichever is less	Depends on affordability index of system being consolidated or received as listed above
Maximum Award				
The maximum award (DWSRF loan plus DWSRC funding) to each water system/entity is \$3,000,000. Multiple owners of one project (shared facilities) or projects that result in restructuring or consolidating two or more systems may combine loan limits up to a maximum of \$6,000,000.				
Loan Fees				
<p>*The loan fee is not subject to the loan limit. For example, if a project is budgeted at \$3,000,000, the applicant can apply for a \$3,030,000 loan—\$3,000,000 for the project plus the \$30,000 loan fee.</p> <p>**Water systems receiving subsidy are not subject to loan fees.</p> <p>***Consolidation, restructuring, and receivership projects qualify for both DWSRF loan funding (with up to 50% principal forgiveness) and DWSRC funding. DWSRC funding is awarded based on the affordability index of the system being consolidated, restructured, or received.</p>				

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.

As previously described, we also made \$4.35 million of state-appropriated funding (DWSRC) available for consolidation, restructuring, and receivership projects in the 2018 DWSRF construction loan cycle. The list of funded projects is in Appendix C.

Environmental and Cultural Review Process

All funded construction loan projects undergo environmental and cultural reviews.

The DWSRF Program is modifying the State Environmental Review Process to serve loan recipients and stakeholders better. DWSRF construction loan recipients were required to publish the final environmental review determination in the legal section of the local newspaper for a 30-day public comment period. The DWSRF Program is modifying this 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 23 of the DWSRF loan program. The list includes 15 eligible projects totaling \$ 19,863,640.

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 D 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.

9. Public participation

To advertise the availability of the 2018 fall Draft DWSRF Funding List and the date and time of the public hearing, we emailed stakeholders on the availability of the IUP. Stakeholders included all regulated water systems, tribal entities, and state associations (such as water and sewer districts). On May 29, 2019, we notified 2,838 stakeholders via email that we would accept public comments until July 1, and held the public meeting July 1 from 10 a.m. to noon at Department of Health, Room 225, Town Center 3, 243 Israel Road, Tumwater, Washington. No comments were received from the public.

This final IUP is available at doh.wa.gov/Portals/1/Documents/pubs/331-534.pdf.

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, the Board, and Commerce are 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.

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. The state does not currently sell bonds to support the DWSRF Program.

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 annually according to Generally Accepted Government Auditing Standards.

The Office of the Washington State Auditor 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 2016 DWSRF Program guidelines

The 2018 fall DWSRF program guidelines and application are at doh.wa.gov/Portals/1/Documents/Pubs/331-196.pdf

Appendix B: Year 23 Funded DWSRF Loan Applicants List

Health Application	Water System ID	Final Score	Applicant Name	Project	County	Population	Loan Amount	Client Loan Total w/1% loan fee if applicable)	Possible Subsidy Granted	Comments	Project Description
2018-3584	29485	127	Liberty Lake Sewer and Water District No. 1	Green Ridge Water System Consolidation Project	Spokane	100	\$1,711,309	\$1,711,309	\$1,711,309	Consolidation project, qualifies for 50% principal forgiveness. *	This project includes consolidation of the Green Ridge Homeowners Association water system into the Liberty Lake Sewer and Water District's water system. Green Ridge's well is compromised due to a drain field located in its 100-foot sanitary control area. This consolidation project consists of an intertie with Liberty Lake Sewer and Water District. This allows Green Ridge to abandon its well and improves the Green Ridge system to meet district standards. The improvements include replacement of the distribution system, reservoir, and associated booster station.
2018-3601	24190	110	McKee's Evergreen Beach Association	Arsenic Treatment and Water System Improvements	Snohomish	290	\$841,500	\$849,915	0	AI=1.32, project does not qualify for principal forgiveness.	In May 2016, McKee's Evergreen Beach Association entered into a compliance agreement with DOH to address an arsenic maximum contaminant level violation. Levels of manganese within the water supply also exceed recommended levels. This project will install a water treatment system based on the pilot study design parameters. In addition, this project replaces two existing well pumps to meet operational requirements of the new treatment system. It will also install a water reservoir, as required by DOH, for contact time and sized to meet all required operation and treatment storage volumes for backwash for the new treatment system.
2018-3573	72807	106	Pend Oreille Public Utility District	River View Shores Arsenic Removal Project	Pend Oreille	28	\$198,150	\$198,150	\$198,150	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. This project consists of 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.
2018-3615	68700	105	Olympic Water and Sewer Inc.	Arsenic Treatment Facility for Wells	Jefferson	2,723	\$2,110,000	\$2,131,100	0	For-profit system, not eligible for subsidy.	Olympic Water and Sewer has two wells, with one well exceeding the arsenic maximum contaminant level (MCL). Olympic Water and Sewer has been blending the wells to maintain compliance with the arsenic MCL. This project will install arsenic removal treatment. The treatment plant is also designed to remove high levels of iron and manganese present in both sources. Due to recent coliform positive results within the distribution system, Olympic Water and Sewer will install full-time disinfection.
2018-3597	83100	103	City of Spokane	Spokane International Airport System Additional Reservoir	Spokane	227,509	\$3,000,000	\$3,030,000	0	AI=0.92, project does not qualify for principal forgiveness.	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 affected 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, this project will construct an additional 4.5 million gallon storage reservoir for the SIA Pressure Zone. A site has been identified on airport property that will not require property purchase. This additional reservoir provides adequate storage for existing demands and provides continued service to Airway Heights through the existing intertie.
2018-3576	03350	96	City of Auburn	Lead Gooseneck Replacement	King	58,864	\$3,000,000	\$3,030,000	0	AI=0.86, project does not qualify for principal forgiveness.	The purpose of this project is to remove and replace lead gooseneck service lines in the City of Auburn. It is estimated that approximately 730 of these service connections currently exist in the city. The cost of lead gooseneck removal and replacement is estimated around \$6.4 million. This project is also in response to the Governor's directive goal of removing all lead service lines and lead components within 15 years.
2018-3602	17000	86	Town of Cusick	Town of Cusick Water Treatment Plant Upgrade	Pend Oreille	646	\$660,000	\$660,000	\$660,000	AI=2.45, qualifies for 30% principal forgiveness.*	The Town of Cusick is currently under a compliance order to upgrade its surface water treatment plant. The project includes two new treated water distribution pumps; a new motor control center; new automated control system and instrumentation; new hypochlorination system; new telemetry system between treatment plant and reservoir; upgraded alarm system; clear well piping and sampling ports; modifications to waste system; new controls; and filter work.

Health Application	Water System ID	Final Score	Applicant Name	Project	County	Population	Loan Amount	Client Loan Total w/1% loan fee if applicable)	Possible Subsidy Granted	Comments	Project Description
2018-3606	AB037	73	Thurston PUD	Hawley Hills 686 Consolidation	Thurston	349	\$319,808	\$319,808	\$319,808	Consolidation project, qualifies for 50% principal forgiveness. *	This project is for the consolidation of four existing Group A water systems: Hawley Hills, Deerfield Park, Deerfield Park 2, and Marvin Gardens. Thurston PUD will own, operate, and maintain the newly consolidated water system. Project improvements include new reservoir, new main line, new booster stations, new interties.
2018-3585	47145	69	Liberty Lake Sewer and Water District No. 1	Eastside Water System Improvement Project, Phase 2	Spokane	537	\$2,660,500	\$2,660,500	\$2,207,339	Consolidation project, qualifies for 50% principal forgiveness. *	This project is Phase 2 of a consolidation project (Liberty Lake Sewer and Water District consolidated Eastside Liberty Lake Improvement Club in 2017) that was funded with a previous DWSRF loan (DP15-952-041/DWL23668). Project includes replacement of deteriorated and undersized water mains within the former Eastside Liberty Lake Improvement Club water system to reduce liability, water loss from leakage, and improve service pressure and fire flow. Replacement of undersized and leaking waterlines reduces the district's liability exposure and potential property damage associated with maintaining deteriorated waterlines, particularly waterlines located under permanent structures.
2018-3607	88388	69	Thurston PUD	Timberline Village 628 Upgrades	Lewis	118	\$401,100	\$401,100	\$401,100	Consolidation project, qualifies for 50% principal forgiveness. *	This project is for Thurston PUD to permanently own, operate, and maintain Timberline Village water system. Project includes complete leak assessment and repairs, repair damaged pump house, and installation of approximately 38 service meters.
2018-3571	96950	65	Town of Wilkeson	Rainier Ranch Maintenance Association Consolidation	Pierce	350	\$220,100	\$220,100	\$220,100	Consolidation project, qualifies for 50% principal forgiveness. *	Rainier Ranch Maintenance Association (RRMA) seeks to discontinue operation of its water system and turn over its water system facilities to the Town of Wilkeson, allowing Rainier Ranch property owners to obtain direct water service from the Town of Wilkeson. The DWSRF loan will be used to retire the existing Rainier Ranch water system Rural Development loan.
2018-3596	10748	61	Camano Vista Water District	Manganese Treatment Plant	Island	469	\$271,750	\$274,468	0	AI=0.84, project does not qualify for principal forgiveness.	This project consists of installing treatment for the removal of manganese that exceeds the secondary maximum contaminant level. The installation of treatment will require new pumps to be installed. To improve system resiliency during a power outage, a new generator will be installed.
2018-3600	59700	60	Nob Hill Water Association	Nob Hill Water Association New Well 8	Yakima	29,685	\$3,000,000	\$3,030,000	0	AI=1.15, project does not qualify for principal forgiveness.	Nob Hill's 2015 Water System Plan identified the need for additional source capacity. The existing 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 2015 demand 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.
2018-3582	23581	59	Woodland Heights Maintenance Association	Pump House and Water Distribution System Upgrade	King	108	\$734,094	\$734,094	\$734,094	AI=2.15, qualifies for 30% principal forgiveness. *	This project improves the resiliency of the Woodland Heights water system by installing the following improvements: replacement of approximately 4,600 feet of pipe, merging two pressure zones and removal of a booster pump station; installation of service meters; water storage tank improvements; and replacing existing generator with automatic transfer switch.
2018-3586	10580	56	Camaloch Association	Resiliency Project - Generator, new pump, seismic upgrades	Island	818	\$607,026	\$613,096	0	AI=0.83, project does not qualify for principal forgiveness.	Project focus is to improve system resiliency by installing the following improvements: replacement of existing booster pumps to meet demands; replacement of source meters; installation of generator; replacement of aging well pump; and seismic upgrades to existing concrete water storage tank.
TOTALS							\$19,735,337	\$19,863,640	\$6,451,900		

*Additional subsidy awarded to meet 26% capitalization grant subsidy award amount. All projects receiving subsidy will also receive reduced interest rate of 1.75 percent.

Appendix C: Year 23 Drinking Water System Repair and Consolidation (DWSRC) Funded Applicants*

Health Application	Water System ID	Score	Water System Name	Project	County	Population	DWSRC Grant Award	Project Description
2018-3620	29485	127	Liberty Lake Sewer and Water District No. 1	Green Ridge Water System Consolidation Project	Spokane	100	\$1,024,691	See description above. Project co-funded with DWSRF loan money.
2018-3595	64400	123	City of Oroville	Eastlake Water Association Consolidation Project	Okanogan	30	\$919,000	DOH issued a Notice of Violation in April 2017 and an Agreed Notice of Correction in September 2018 to Eastlake Water Association (ELWA) for exceedance of the nitrate maximum contaminant level (MCL). Customers of ELWA have been drinking bottled water due to high nitrates in its water supply. ELWA seeks to consolidate with the City of Oroville water system and be permanently served with water through an intertie with City of Oroville. This project also includes installation of required service meters within ELWA water system.
2018-3572	05198	123	Wahkiakum County PUD #1	Wahkiakum PUD No. 1 - West Side Water (formerly Skamokawa) consolidation	Wahkiakum	58	\$572,925	Wahkiakum PUD No. 1 completed acquisition of West Side Water Works located near Skamokawa, Washington, a Group A water system. In addition, the West Side Water Works under the ownership of Wahkiakum PUD will consolidate at least one and perhaps two adjacent Group B water systems: (1) Sleepy Hollow Water Company currently using an untreated surface water source, and (2) Brooks Slough Water Association currently using an untreated spring source. Consolidation projects include extension of the water main into each of the two service areas and installation of new water service meters. In addition, well improvements include a new chlorine injection system at the existing West Side Water Works well, installed in the existing well house.
2018-3619	04456	119	Basin City Water and Sewer District	BCE Consolidation and Secondary Source Construction	Franklin	51	\$624,692	This project involves the consolidation of the Group A–BCE water system into the Group A–Basin City Water-Sewer District (BCWSD) system. The BCE well has a recorded nitrate level of 21.5 ppm. The BCE users are currently using water from BCWSD and were connected in mid-2017. The owner of the BCE system proposed to close the system and end service to the businesses and residences connected. BCWSD offered to purchase the system and this was accepted. The number of connections seriously taxed the ability of BCWSD to provide water to the entire community during a few critical days these past two summers. As part of the consolidation, BCWSD will drill a new secondary well and install meters on all BCE service connections.
2018-3621	AB037	73	Thurston PUD	Hawley Hills 686 Consolidation	Thurston	349	\$624,692	See description above. Project co-funded with DWSRF loan money.
2018-3598	07301	70	Grays Harbor County Utilities & Development	Copalis Rocks Water System Improvements	Grays Harbor	21	\$367,000	The project is for Grays Harbor County to permanently own, operate, and maintain Copalis Rocks Water Systems. The project includes construction of a 5,000 gallon storage tank and replacement of distribution piping in the upper pressure zone. The increase in storage is needed for meeting basic demands and to enhance reliability. The storage project will entail installing a second concrete pad and tank similar to the existing tank facilities. The drain and overflow on the existing tank will be modified to provide an air gap and also serve the new tank.
2018-3608	71930	68	Thurston PUD	ROM 626 Reservoir Upgrades	Lewis	68	\$217,000	This project is for Thurston PUD to permanently own, operate, and maintain ROM Mutual water system. Project includes installation of source meter, installation of up to 48 service meters, and upgrades and cleaning of the reservoir.
Total							\$4,350,000	

* Funding for consolidation and restructuring projects provided through a state appropriation for Drinking Water System Repairs and Consolidation, SSB 6090 Section 2035, with DOH receiving \$5 million in the appropriation. 3% of the appropriation is reserved for administrative costs associated with administering these funds and \$500,000 has been awarded to Pierce County for repairs/upgrades associated with the receivership of Kapowsin Water District.

Appendix D: Year 23 Ineligible, Unfunded or Withdrawn DWSRF Loan Applicants

Health Application	Water System ID	Score	Water System Name	Project	County	Population	Request	Project Description
2018-3605	95300	55	City of Westport	Westport Deep Wells Project	Grays Harbor	4,300	\$2,961,977	The City of Westport water system is currently operating at or over capacity of existing pumps and shallow aquifers much of the year, especially during busy summer months. The city's primary source of high quality water is supplied by deep wells in the Roberts Ranch area several miles south of city limits. The city drilled an exploratory well at its South Wellfield in 2017 and was able to tap into the deep aquifer that supports the Roberts Ranch wells. The city is proposing to drill and equip two new 12-inch diameter production wells to improve water quality and production capacity to serve existing residential and commercial demand. The high quality water would not have the same issues with arsenic that the city's shallow north wellfield has that the city uses seasonally to blend with high quality water to meet demand. <i>Project did not score high enough to be funded.</i>
2018-3580	69750	54	City of Prosser	Well No. 2 and No. 3 Replacement	Benton	6,125	\$2,474,500	The City of Prosser's Wells No. 2 and No. 3 need substantial improvements to enhance system reliability and produce safe drinking water for 6,040 people in the Prosser service area. The capacity of Well No. 3 is 500 gpm. The capacity of Well No. 2 was 700 gpm, but production was limited to 520 gpm to reduce the pumping of sand until 2008, when the well failed. Their failure has a serious effect on the city's ability to satisfy peak demands because source capacity is now limited to 500 gpm of the 2,400 gpm allowed by the city's water rights. To provide a reliable source of supply matching allowed well capacity, the cost-effective solution is to replace the existing Well No. 2 and Well No. 3 with a single high producing new source well. The proposed improvements will include drilling a new well into the same aquifer, and a building to house piping, accessories, and electrical and control equipment. <i>Project did not score high enough to be funded.</i>
2018-3609	71500	44	City of Raymond	Raymond Heights Reservoir Rehabilitation	Pacific	4,620	\$999,900	This project is to rehabilitate the City of Raymond's existing 3 MG reservoir, the city's only water reservoir. <i>Project did not score high enough to be funded.</i>
2018-3618	10748	41	Camano Vista Water District	Pipeline Replacement	Island	469	\$85,522	This project consists of looping a portion of the system and replacement of approximately 610 feet of old water main. <i>Project did not score high enough to be funded.</i>
2018-3617	10580	41	Camaloch Association	New Pumphouse, booster pumps, pipe meter	Island	818	\$1,836,652	This project consists of replacing most of the old water mains within the distribution system. Approximately 16,000 feet of new water main is to be installed. <i>Project did not score high enough to be funded.</i>
2018-3578	86294	39	Pend Oreille Public Utility District	Sunvale Acres Distribution Replacement Project	Pend Oreille	48	\$659,585	The proposed project is to replace approximately 4,620 feet of old and undersized distribution main. <i>Project did not score high enough to be funded.</i>
2018-3612	90400	37	Town of Uniontown	Lead Joint Replacement - East Side	Whitman	324	\$1,061,510	The proposed project is to replace approximately 5,400 feet of old steel main with lead joints. <i>Project did not score high enough to be funded; lead joints not considered to be a health concern due to minimal contact between the lead joints and water in the main.</i>
2018-3599	83100	0	City of Spokane	SIA Transmission Line Crossing Under I-90	Spokane	277,509	\$2,424,000	The City of Spokane acquired ownership of the Spokane International Airport (SIA) area in 1980 and provides water to this area. In May of 2017, the City of Airway Heights (located near the airport) discovered firefighting foam contaminants (PFOS) in its wells. This crisis affected at least 9,000 people and required City of Spokane to supply that community with water through an existing intertie. Providing water to Airway Heights placed large demands on the system and put the city at risk of not being able to supply adequate flow within the airport pressure zone area during peak usage. In order to meet current demands, this project will construct another transmission main to serve this area. <i>Project not funded; City of Spokane funding requests exceeded \$3,000,000 plus loan fee maximum award amount this funding cycle.</i>
2018-3579	83100	0	City of Spokane	SIA Transmission Line Crossing Under I-90	Spokane	277,509	\$1,414,000	The City of Spokane acquired ownership of the Spokane International Airport (SIA) area in 1980 and provides water to this area. In May of 2017, the City of Airway Heights (located near the airport) discovered firefighting foam contaminants (PFOS) in its wells. This crisis affected at least 9,000 people and required the City of Spokane to supply that community with water through an existing intertie. Providing water to Airway Heights placed large demands on the system and put the city at risk of not being able to supply adequate flow within the airport pressure zone area during peak usage. In order to meet current demands, this project will construct another booster pump station to serve this area. <i>Project not funded; City of Spokane funding requests exceeded \$3,000,000 plus loan fee maximum award amount this funding cycle.</i>
2018-3577	04456	0	Basin City Water and Sewer District	BCE Consolidation and Secondary Source Construction	Franklin	51	\$662,308	This project involves the consolidation of the Group A—BCE water system into the Group A—Basin City Water-Sewer District (BCWSD) system. The BCE well has a recorded nitrate level of 21.5 ppm. The BCE users are currently using water from BCWSD and were connected in mid-2017. The owner of the BCE system proposed to close the system down and end service to the businesses and residences connected. BCWSD offered to purchase the system and this was accepted. The number of connections seriously taxed the ability of BCSWD to provide water to the entire community, during a few critical days these past two summers. As part of the consolidation, BCWSD will be drilling a new secondary well and installing meters on all services. <i>Project ineligible: BCWSD</i>

Health Application	Water System ID	Score	Water System Name	Project	County	Population	Request	Project Description
								<i>had several audit findings and is ineligible for DWSRF loan funding until the audit finding is rectified. Project to be partially funded with consolidation grant funds.</i>
2018-3613	15650	0	Beacon Hill Water and Sewer District	Skyline Reservoir and Pump Station Improvements	Cowlitz	10,800	\$2,020,000	Beacon Hill Water and Sewer District (BHWSD) is planning to construct a new Skyline Pump Station and Reservoir. <i>Project ineligible: BHWSD did not have a current, approved water system plan at time of application.</i>
Total							\$16,599,953	