



WASHINGTON STATE
PUBLIC WORKS BOARD

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WASHINGTON STATE DRINKING WATER STATE REVOLVING FUND

DRAFT INTENDED USE PLAN FOR SIXTEENTH YEAR FEDERAL CAPITALIZATION GRANT

WASHINGTON STATE DEPARTMENT OF HEALTH
and
PUBLIC WORKS BOARD

In partnership with the
Department of Commerce

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SIXTEENTH YEAR FEDERAL CAPITALIZATION GRANT INTENDED USE PLAN

I. INTRODUCTION

In August 1996, Congress established the Drinking Water State Revolving Fund (DWSRF) as part of its reauthorization of the federal Safe Drinking Water Act. The purpose of the DWSRF program is to finance drinking water projects and activities to protect public health and achieve or maintain compliance with the Safe Drinking Water Act. The 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 at least 20% of the federal capitalization grant. As part of its capitalization grant application to EPA, each state must annually prepare an Intended Use Plan (IUP), which describes the intended use of available funds.

In federal fiscal year (FFY) 2012 (October 1, 2011 through September 30, 2012), Congress appropriated \$917,892,000 for the DWSRF program nationwide. Of this amount, Washington State was allocated \$22,914,000 from EPA to fund capital infrastructure improvement projects and non-construction projects for state fiscal year (SFY) 2012 (July 1, 2012 through June 30, 2013). In addition Washington State has approximately \$114 million in state matching funds, interest, repayments in hand and repayments expected during the construction of the projects in this intended use plan for a combined total of approximately \$137 million to be used for the construction loan fund and set-asides for non-construction projects approximately \$6.3 million.(see Table 1, page 6).

The DWSRF funds are managed at the federal level by EPA. Washington State's DWSRF program is administered jointly by the Department of Health (DOH) and the Public Works Board (Board), along with the Board's administrative agent, the Department of Commerce (COM). DOH, the Board and COM have developed a Memorandum of Understanding (MOU) for administration of the DWSRF. This MOU was developed prior to the state being awarded its first year capitalization grant.

Federal DWSRF capitalization grants are awarded for two primary purposes: **set-asides**, which are funds for DWSRF program administration and non-construction funds to be used for ensuring compliance with the SDWA; and the **capital construction project loan fund**, which assists eligible water systems, statewide, in achieving compliance and protecting public health. To access DWSRF funds, Washington State must submit a capitalization grant application to EPA, which includes this Draft Intended Use Plan (IUP).

The Draft Year 16 IUP provides information on:

- The status of the state's DWSRF program.
- How Washington State will process and allocate approximately \$137 million of federal and state funds comprising both the project fund and set-aside portions of the DWSRF.

- The criteria used to determine capital project loan eligibility and prioritization.
- A description of the intended uses of Additional Subsidization.
- The 2012 DWSRF prioritized project funding list.

DOH has prepared and circulated this Draft IUP for a 30-day public review and comment period (see page 17 for more information).

II. CONGRESSIONAL PRIORITIES

Congress specifically stated in the re-authorized SDWA that, to the maximum extent practicable, priority for the use of the project funds should be given to projects based on the following guidance (which includes a description of how Washington is complying with these priorities in our DWSRF):

- ***Projects that address the most serious risk to public health.*** Priority ranking of projects is primarily based on public health risk. Projects addressing acute risks are ranked higher than those to remedy chronic risks. Infrastructure replacement projects and municipal refinance projects financed prior to January 1, 2012, while eligible, had the lowest priority.
- ***Projects necessary to ensure compliance with the requirements of the SDWA.*** All applications are reviewed with respect to compliance with the SDWA. If the applicant is out of compliance, the proposed project must either resolve the compliance problem or the applicant must indicate that another project is resolving the compliance problem.
- ***Points are awarded to projects that address current compliance actions or impending public health threats.*** The quantity of points awarded varies, with the highest points awarded for compliance issues involving higher public health risk problems, such as microbial contamination, the next lower level set of points go to projects that eliminate primary inorganic chemical risk, such as arsenic and nitrates. A full description of the risk category scoring is in Appendix A.
- ***Assistance should be provided to systems most in need, on a per household basis, according to state affordability criteria.*** All eligible community water system applicants may request consideration for bonus points based on affordability of their rates. Non-community systems are not allowed this consideration because such systems, by definition, do not supply water to households and therefore cannot meet the federal requirement to base affordability on a “per household basis.” Applicants requesting affordability bonus point consideration may be awarded up to ten bonus points. Affordability bonus points are calculated using the Affordability Index - a formula that considers applicant’s median household income, operational expenses, and water rates.

III. WASHINGTON'S PROGRAM GOALS

Washington DOH has developed long and short-term goals to ensure the integrity of the DWSRF. DOH also added goals to assure compliance with EPA's environmental results performance standards. Following is a list of the goals with a brief summary of how this document is consistent with them:

Long-Term Goals

- ***Maintain the economic viability of the DWSRF program to meet current and projected needs in Washington State.*** The loan terms are established each year before the DWSRF program application period begins. Interest rates have historically been lower than the basic DWSRF rate for systems within "distressed counties" or "disadvantaged communities." Starting in FY 2012, the lower interest rates will be going to water systems with high Affordability Index numbers. Interest rates are fixed for the life of the loan. The DWSRF does not transfer funds to the Clean Water State Revolving Fund (CWSRF) and, similarly, CWSRF does not transfer funds to the DWSRF. As required by Federal law for federal fiscal year 2012, we will offer subsidy to projects eligible under our criteria. Should mandatory subsidy remain with this program, we will have to re-evaluate interest rates in order to maintain proper fund perpetuity.
- ***Provide loans and technical assistance to community and non-profit, non-community water systems to facilitate effective planning, design, financing, and construction of improvements aimed at increasing public health protection and compliance with Primary Drinking Water Regulations.*** Washington's DWSRF program is available to both publicly-owned and privately-owned public water systems with the following conditions:
 - ◆ Systems must be subject to the SDWA upon project completion.
 - ◆ Non-community systems must be owned by a non-profit entity.
 - ◆ Applications must comply with eligibility and loan requirements.
 - ◆ Application must rate sufficiently high on the priority ranking list to receive funding.

State staff provides direct technical assistance to water systems regarding eligibility requirements through loan application workshops and one-on-one phone, e-mail, and site visits if appropriate. Set-aside funds are used to provide a variety of technical assistance to water systems to facilitate public health protection and compliance.

- ***Ensure adequate resources to provide long-term administration of the DWSRF Program.*** Washington assesses a loan fee for each loan which is currently set at one percent of the loan. All loan fees are deposited into a dedicated loan fee account. This account is reserved for program administration unless the Board and DOH jointly determine that the balance exceeds program administration needs, in which case some or all of the funds may be transferred to the project loan account.

Short-Term Goals

- ***Provide at least 15 percent of the funds to systems serving fewer than 10,000 people.*** Most of Washington's public water systems serve fewer than 10,000 people. The relatively few systems serving 10,000 or more people generally have access to better financing terms than are being offered under the DWSRF program. Based on the current draft priority project list (Appendix B), about 34 percent of the funds for this year's projects will go to systems serving fewer than 10,000 people. This percentage is subject to change but it is anticipated to remain substantially over the federal target of 15 percent.
- ***Provide assistance to communities to strengthen local capacity.*** Capacity is defined as a water system's technical, managerial, and financial capabilities. The 1996 reauthorization of the Safe Drinking Water Act recognizes the importance of capacity while the DWSRF program requires loan applicants to demonstrate sufficient capacity to qualify for assistance. To satisfy this federal capacity requirement, Washington State DWSRF loan program applicants must have a DOH-approved Water System Plan or a Small Water System Management Program, depending on the size and type of water system. The plan or the program details the water system's technical, managerial, and financial capabilities and must also include the proposed project in the capital improvement element of the document. DOH also subsidizes water system planning through use of DWSRF set-aside funds for some water systems.
- ***Provide up to 30% of the 2012 Capitalization Grant as loan subsidy to eligible recipients.*** Washington will offer approximately \$6.8 million from the 2012 Capitalization Grant as principal forgiveness. Due to the current national economy, the basic loan for the 2012 funding cycle is a 20-year fixed rate loan of 1.5 percent interest. The highest scoring applicants with water systems with Affordability Index numbers of 2.01-3.50% will receive 30% of their loan as principal forgiveness; those with 3.51% and greater will receive 50%. To encourage the sustainability of water systems in Washington, the highest scoring Municipal Group A water systems applicants will receive 50% principal forgiveness for restructuring and consolidation projects that involve a change of ownership. Restructuring and consolidation projects are those that will acquire other non-compliant, failing, or struggling public water systems that have water quality problems or deteriorated infrastructure. Additionally, applicants must demonstrate a track record of sound drinking water utility management.

Environmental Results Goals

Washington's DWSRF project loan funds and set-aside workplans 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 receive drinking water that meets all applicable health-based drinking water standards through effective treatment and source water protection.*** Washington's DWSRF program provides funding to help achieve this federal performance standard. Washington intends to meet or exceed EPA's annual performance targets.

Washington will use the following performance measures to help assure the loan program is helping achieve the federal standards:

- ***Annual percentage of assistance agreements to bring water systems into compliance.*** Based on available funds, Washington proposes to fund 54 of 2012 DWSRF eligible projects. All of these eligible projects are intended to address compliance or public health issues that fall within the funding range for 2012.
- ***Fund utilization rate (cumulative loan agreement dollars compared with the cumulative funds available for projects) for the DWSRF loan fund.*** This will be calculated at the end of each state fiscal year (June 30). Washington's fund utilization rate is expected to meet national performance targets.

IV. FINANCIAL STATUS

Washington's DWSRF loan funding offers are limited to those projects that rank high enough to fall within the available funding target of up to \$131 million for the 2012 loan cycle. The 2012 DWSRF Draft Priority Project List (Appendix B) shows Washington's 2012 funding recommendation. Projects may come off of our funding list due to the following reasons:

- 1) ***Applicants receive alternative funding*** – Applicants may receive other grant or loan assistance in addition to DWSRF. Those applicants may receive some or all of their financial assistance from those other funding sources.
- 2) ***Applicants are "Bypassed"*** – The Public Works Board is currently reviewing DWSRF applications for ability to repay the loan, ability to secure the loan, and DOH is reviewing for readiness for the project to proceed. Applicants are "bypassed" (i.e., no longer considered for funding) if they fail to meet these criteria.
- 3) ***Applicants withdraw from the process*** – Applicants may choose to withdraw from the loan process for other reasons not listed above.

TABLE 1

**WASHINGTON STATE DRINKING WATER STATE REVOLVING FUND
FINANCIAL STATUS AND INTENDED USES OF FUNDS
SIXTHTEENTH YEAR FEDERAL CAPITALIZATION GRANTS**

CATEGORY	CAPITAL GRANT APPLICATION YEAR 16 (projected)	INTENDED USE (\$) (projected)
Total Available		
Federal Capitalization Grant	\$22,914,000	\$22,914,000
20% State Match (PWAA)	<u>\$ 4,582,800</u>	<u>\$ 4,582,800</u>
Total	\$27,496,800	\$27,496,800
Set-Asides:		
Program Administration		
Public Works Board/COM	\$499,514	\$499,514
Department of Health (DOH)	<u>\$417,046</u>	<u>\$417,046</u>
Total	\$916,560	\$916,560
State Program Management	\$2,291,400	\$2,291,400
Small System Technical Assistance	\$458,280	\$458,280
Local Assistance & Other State Programs Total	\$2,675,289	\$2,675,289
Total Set-Asides	\$6,341,529	\$6,341,529
Project Funds Available		
From Yr 15 Capitalization Grant + Match	\$21,155,271	\$21,155,271
From Investment Earnings (thru 6/30/11)	\$694,113	\$694,113
From repayments including loan interest in hand	\$45,537,527	\$45,537,527
From repayments expected in the next 36 months	\$60,000,000	\$60,000,000
From current de-obligations of previous loans	\$3,522,586	\$ 3,522,586
Total Available for New Project Loans	\$130,909,497	\$130,909,497
Total Project Funds & Set-Aside Funds	\$137,251,026	\$137,251,026

NOTES:

1. "PWAA" = Public Works Assistance Account.
2. State Match includes funds deposited into the Project Fund Account from the PWAA plus interest and dividends earned on the funds in this account prior to June 30, 2012.
3. In addition to the State Match shown above, the state must also provide 100% match for any funds used out of the State Program Management set-aside. This match is not reflected in this chart. It comes from credits for state 1993 overmatch to its PWSS grant and other existing drinking water sources of revenue.
4. The Project Fund is the account from which loans will be made to water systems for eligible projects.
5. Total allowable set-asides per the SDWA legislation = 31% of the federal grant.

6. Total amount of set-asides for the Intended Use = is 31% of the federal grant.
7. Intended Use dollars for set-asides will generally be spent on or committed to activities in state fiscal years 2012 and beyond.
8. Any uncommitted Project Fund dollars will be used to fund cost overruns of existing projects or carried forward to fund future projects.
9. Total available funding for loans and set-asides is as of the date of this document.

V. SET-ASIDE ACTIVITIES

Overview of Set-Asides

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

The four categories of set-asides are:

- Program Administration (4%)
- State Program Management (10%)
- Small System Technical Assistance (2%)
- Local Assistance and Other State Programs (15%)

Each category has a federal limitation on the amount of funds that can be used for that category and the types of activities that can be funded. Set-aside assistance may be provided through DOH, third party contractors, or direct funding to public water systems. Funds from these capitalization grants will be used to fund activities during more than one state fiscal year.

The funds for set-asides, other than the Program Administration set-aside, will not be expended until detailed workplans have been submitted to and approved by EPA. DOH anticipates completing this process and having funds available in SFY 2013. Washington is intending to use 28 percent of its sixteenth year capitalization grants for current and future set-aside activities. Program Administration set-aside funds will be used beginning in State Fiscal Year (SFY) 2013. Any remaining set-aside funds will be used over multiple state fiscal years, beginning in SFY 2013. The state will develop detailed workplans for the set-aside funds. The subsections below describe Washington's intended uses for these set-aside funds.

DOH uses set-aside funds for workplans 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 receive 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, DOH often relies on contractors who have specialized skills and qualifications. We have identified a list of qualified contractors that DOH may utilize to complete collaborative research projects funded with DWSRF set-asides:

- Evergreen Rural Water of Washington (ERWOW)
- Washington Environmental Training Center (WETRC)
- Rural Community Assistance Corporation (RCAC)
- Sleeping Giant Environmental Consultants, LLP
- Sander Enterprises
- Pick of the Litter Design, Inc.

If a set-aside project requires skills that are not represented by the contractors above, DOH can still use a competitive bid process to select an appropriate contractor if needed.

Program Administration Set-Aside

Washington is using the full four percent allotment for this set-aside to cover direct and indirect expenses associated with program administration activities. The funds are divided between DOH and COM. The SRF set aside to administer DWSRF loans is supplemented with loan fees because the set aside amount does not provide sufficient funding for this activity.

State Program Management Set-Aside

In reauthorizing the SDWA, Congress recognized that they had not been adequately funding state drinking water programs for those states that have assumed primacy for enforcing the SDWA. Congress chose to provide states with the option of using up to ten percent of their annual DWSRF allotment to help resolve this state funding issue. Washington is using its full ten percent allotment to manage the state drinking water program. States must provide an additional 100 percent match for federal funds used from this set-aside. Washington is providing this match by using credits from previous overmatch of the state's 1993 Public Water System Supervision (PWSS) grant and other sources of drinking water program funds.

A significant number of DOH positions are funded out of this set-aside to address the following activities:

- Administer the state PWSS program.
- Maintain and improve the DOH Office of Drinking Water's computer system.
- Work collaboratively with staff, public water supplies, and government agencies to help them understand regulatory requirements and assist them when water quality contamination occurs.
- Carry out notification, compliance, financial, and technical assistance activities. This includes the assurance that system compliance with requirements for consumer confidence reports and various water quality monitoring requirements are met.
- Develop regulations, program plans, ODW policies, guidelines, etc. that are technical in nature.

Small System Technical Assistance Set-Aside

This set-aside is to provide technical assistance to water systems under 10,000 in population. Washington will use its full two percent allotments 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 assist development and/or implementation of local drinking water protection initiatives under Section 1452(k) of the 1996 SDWA amendments. Up to 15 percent of the annual capitalization grant may be used for the local assistance and other state programs set-aside, with a maximum of 10 percent being used for any one category of assistance. DOH intends to use 12 percent of this set-aside this year. This funding will to assist systems in complying with the SDWA requirements by funding a number of activities related to system capacity development or wellhead protection.

Capacity development activities include but are not limited to the following:

- Manage our internet site and other media and develop communication products to provide capacity information to public drinking water systems.
- Conduct sanitary surveys and provide related technical assistance to small systems.
- Provide technical assistance to water systems to help them achieve and maintain compliance with coliform monitoring and follow-up requirements.
- Assist public water systems with ground water under the direct influence of surface water determinations.
- Provide technical assistance to water systems as they develop wellhead protection programs.

VI. DESCRIPTION OF AMOUNTS TRANSFERRED BETWEEN THE DWSRF AND THE CWSRF

The Governor of a state 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, however, will not transfer funds between these programs during the sixteenth year of the DWSRF Program.

VII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

Seventy two percent of the projected \$22,914,000 capitalization grant, plus the entire 20 percent state grant match, loan repayments, project fund investment earnings, and de-obligated loan funds will be available for the Project Fund. The estimated value of the Project Fund is shown in Table 1, page 7.

Applications for Loans

Public workshops were conducted in multiple locations around the state where DWSRF staff provided information regarding the application process. All eligible public water systems on record at DOH were notified by e-mail, and a notice was placed in the *Water Tap* publication of these workshops and the availability of the 2012 DWSRF Guidelines and Application. Any party requesting a copy of the guidelines or application forms was sent one. The guidelines and application were available as hard copies, electronic files sent via e-mail, or could be downloaded from the Internet. DOH and Board staff provided technical assistance to potential applicants.

Applications for the Year 16 DWSRF loan program were accepted until March 1, 2012. DOH received 105 applications requesting over \$218 million. The amount of project loan funding available is approximately \$131 million. This total is calculated from project funds from the Year 16 grant award (\$16,572,471), the 20% state match for project funds (\$4,582,800), fund investment earnings (\$694,113), repayments (\$105,537,527), and de-obligation of previous loans (\$3,522,586) (Table 1, page 7). Any excess funds will be carried forward for future project loans.

Eligibility and Threshold Review

Washington's eligibility criteria included all federal eligibility criteria plus several state criteria (Appendix A). DOH staff reviewed all applications for eligibility requirements. Applicants were given 10 days to appeal any DOH determination that their proposed project was not eligible.

DOH determined that 12 projects for Year 16 are ineligible. The ineligible, declined, and disqualified projects are listed in Appendix C.

DOH revised and updated the guidelines to reflect changing the loan terms to define criteria and eligibility for principal forgiveness.

Prioritization Review and Priority Ranking Criteria (Appendix A)

DOH scored loan applications using criteria contained in Washington's 2012 DWSRF Guidelines. Points awarded varied according to the level of public health risk the proposed project would eliminate and the type of project being proposed to solve the problem(s) identified by the applicant. Bonus points were added for projects that:

- 1) Demonstrated existing or potential SDWA compliance problems
- 2) Involved restructuring benefits
- 3) Provided regional benefits
- 4) Provided solutions for multiple areas of public health risk
- 5) Demonstrated that water rates are "affordable"
- 6) Included installation of service meters

Basic Points

Eligible applications are scored in one of five primary scoring categories based on public health risk addressed by the project. Each application is then scored based on the type of project(s) being proposed (i.e., source, treatment, storage, distribution).

The health risk categories are:

- ◆ Microbial Risk. Examples include disinfection and source projects; covering, repair, replacement, or other improvements to existing distribution reservoirs.
- ◆ Primary Inorganic Chemical Risk. Projects that address nitrate, arsenic, or corrosion problems for example.

- ◆ Other Primary Chemical Risk. A wide range of chemical contaminants falls into this category including disinfection by-products.
- ◆ Secondary Chemical/Sea Water Intrusion Risk. Projects that address iron and manganese problems, or seawater intrusion problems. Seawater intrusion was only considered if source contamination was determined to be existing or imminent and presented a potential threat to public health. The seawater intrusion could not be tied to system growth, because while problem systems could size facilities based on “reasonable growth”, future growth projects (i.e., those whose primary purpose is meeting future growth needs) would be determined to be ineligible for DWSRF funding.
- ◆ Infrastructure Replacement/Other Distribution Improvements. Infrastructure replacement is a broad category where existing facilities are substandard in design or physically failing. Applicants are generally given the benefit of the doubt in this category, provided that the focus of the project did not appear to be either “future growth” or “fire flow.”

Bonus Points

Bonus points are awarded to projects as follows:

- ◆ Compliance Status. Bonus points are awarded if the system is subject to an active state or federal compliance order or agreement related to the proposed project.
- ◆ Restructuring Benefit. Three bonus points are awarded for each state or federally regulated public water system that would be eliminated by consolidation with another system. For example, if two systems are merged, the project receives three points. If three systems are merged into one, the project receives six points. There is no limit or maximum for restructuring benefit bonus points.
- ◆ Regional Benefit. One bonus point is awarded for each additional state or federally regulated public water system that will benefit from the proposed project, other than through restructuring. For example, if the project will result in public water systems purchasing water as wholesale customers, a maximum of five regional benefit bonus points are allowed.
- ◆ Multiple Benefit. Applications may only be scored in one primary risk category. However, if the project addresses other risk categories, one bonus point is given for each additional risk category. A maximum of four multiple benefit bonus points are allowed.
- ◆ Affordability. Community water systems’ applicants are provided an opportunity to apply for affordability bonus points. Affordability bonus points are awarded to water systems that charge appropriate rates. Non-community systems are not allowed to request affordability points because of the federal requirement that affordability must be considered on a “per household basis.” Affordability points are determined based on an equation that considers median household income of the water system, proposed loan amount, annual expenses, and total number of connections. Up to ten affordability bonus points may be awarded.

- ◆ Service Meters. Two points are awarded to any project that includes installation of service meters if the water system is not fully metered.

Prioritization Review/Process

DOH DWSRF staff reviewed applications for eligibility (see **Eligibility and Threshold Review** on page 11) and assigned a preliminary score (see **Prioritization Review and Priority Ranking Criteria** on pages 10-12). Preliminary scores were based on information provided in the application form as well as an initial review of system compliance status.

DOH DWSRF staff and DOH Regional Office leads met on March 30, 2012 at the DOH Office in Olympia to assign final scores using additional compliance documentation (files) from the Regional Offices as well as detailed discussion of the merits of each project. Regional Office files contain considerable background information on each system's operational and compliance history. The files were valuable in assessing the true public health significance of each proposed project.

Projects that provided information which would qualify them for subsidy under our criteria were scored with all other projects. We then pulled the highest scoring subsidy projects into a separate list until we had more than sufficiently met the mandated funding threshold.

The application prioritization process conducted by DOH is now subject to public review and comment through the Draft Intended Use Plan process. Any comments received will be considered when finalizing the IUP and Priority Project List.

Water System Capacity Review

The 1996 reauthorization of the SDWA included "water system capacity" as an eligibility requirement for DWSRF loans. "Water system capacity" is defined as 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. States cannot provide DWSRF loans to water systems lacking the capability to maintain SDWA compliance, unless the owner or operator of the system agrees to undertake feasible and appropriate changes, or if the use of DWSRF financial assistance will ensure compliance over the long-term.

Each state is required to develop a water system capacity program. EPA approved Washington's water system capacity strategy on September 5, 2000. In Washington, DWSRF applicants are required to demonstrate water system capacity in the following ways:

- 1) The applicant must have a current, DOH-approved Water System Plan (WSP) or Small Water System Management Program (SWSMP).
- 2) The proposed project must be included in the applicant's current, DOH-approved WSP or SWSMP.
- 3) The water system must have a satisfactory operating permit status at application, or upon completion of the proposed project.

- 4) The system must be in compliance with any active enforcement actions, if applicable (including Department of Health-issued departmental orders, penalties, bilateral compliance agreements or federally issued administrative orders or stipulated penalties).

Applicants must submit their approved WSP, SWSMP, or amendments including the proposed project to DOH by March 1, 2012 so they can be eligible to receive DWSRF funding.

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 that the proposed project will address these compliance and capacity requirements.

Financial Capacity and Readiness to Proceed Review

Public Works Board staff evaluates DWSRF applicants for their ability to repay the loan. The financial evaluation includes reviewing documentation such as tax returns, budgets and balance sheets, bank statements, and business references, as well as conducting a detailed financial capacity analysis.

The ability of the applicant to repay the loan is considered in an effort to protect the federal and state interest in the long-term viability of the loan program. All recipients must dedicate a source of revenue to repay the DWSRF loans. Some DWSRF applicants will dedicate a portion of their general funds, and others will propose establishing or increasing user fees. See Appendix A for further details.

Readiness to Proceed

DWSRF funded projects must be completed within 48 months of contract execution. DOH staff evaluates project readiness to proceed, asking the following questions:

- 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?

Bypass Process

Applicants unable to demonstrate ability to repay the loan, applicants with insufficient loan security, or projects that are not ready to proceed are *bypassed*, or not recommended for funding. DWSRF staff will offer technical assistance to bypassed applicants to help them meet the program requirements and reapply in a future funding cycle.

Loan Fees

A non-refundable one percent loan fee is charged for all DWSRF loans that do not receive subsidy. The purpose of the loan fee is to ensure a future source of funds for DWSRF loan program administration. The loan fee is calculated as one percent of the loan request and is incorporated into the loan request. For example, a \$500,000 loan request is assessed a loan fee of \$5,000 for a total loan request of \$505,000. The loan fee is retained by Washington State when the first loan draw is made by the borrower.

A number of states assess a loan fee to plan for future program administration. The loan fee is insurance against having to obtain general fund or other state funding for program administration once the federal set-asides end. The loan fee payment has been structured in such a manner that it will have minimal impact on the size of the annual loan payments.

Loan fees are deposited in a sub-account within the DWSRF dedicated account. The amount in the loan fee account (Fund 05R) is \$3,002,063 as of February 29, 2012. By statute, interest or other investment income accrued in this account will remain in this account. Funds may only be withdrawn from this account for reimbursement of state DWSRF loan program administration unless the Board and DOH jointly determine that the loan fee account balance exceeds short and long term program administration needs. A portion of the funds may then be transferred to the project loan account to be used for project loans.

TABLE 2

LOAN TERMS FOR 2011 PROJECT LOAN APPLICATIONS

Applicant Income Level	Interest Rate	Loan Fee*	Loan Repayment Period
Water system is not economically disadvantaged	1.5% fixed	1% at loan execution*	Twenty (20) years or life of the project, whichever is less
Water system with an affordability index between 1.5 and 2.0%	1.0 % interest on loan	1% at loan execution*	Twenty (20) years or life of the project, whichever is less
Water System with an affordability index of 2.01 to 3.5%	30% Principal Forgiveness & 1.5% interest on loan	**	Twenty (20) years or life of the project, whichever is less
Water System with an affordability index of 3.51 or higher	50% Principal Forgiveness & 1% interest on loan	**	Twenty (20) years or life of the project, whichever is less
Eligible restructuring/consolidation projects proposed by municipal Group A water systems. Projects must result in a change in ownership prior to signing the funding contract (page 6)	50% Principal Forgiveness & 1% interest on loan	**	Twenty (20) years or life of the project, whichever is less
Maximum Award			
A maximum of \$12,000,000 can be awarded to each water system applying this loan cycle, the only exception to exceeding this amount is for consolidation projects. Multiple owners of one project (shared facilities) or satellite management agencies that are restructuring (combining) systems may combine loan limits up to a maximum of \$24,000,000.			
Local Match Requirement			
No local match is required.			
Maximum Award			
*The loan fee is not subject to the loan limit. For example, for a project budgeted at \$3 million, the applicant can apply for a \$3,030,000 loan -- \$3 million for the project plus the \$30,000 loan fee. The loan fee is paid when the first loan draw is made. Loan fees are non-refundable.			

** Systems receiving subsidy are not required to pay the loan fee.

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.

Special Eligibility Requirements for Restructuring and Consolidation Projects

Only municipal Group A water systems are eligible for DWSRF funding for restructuring and consolidation projects that involve a change of ownership prior to executing the funding contract. Restructuring and consolidation projects are those that will acquire other non-compliant, failing or struggling public water systems that have water quality problems or deteriorated infrastructure. Additionally, applicants must demonstrate a track record of sound drinking water utility management, meeting the following criteria:

- Own at least one Group A public water system.
- Have a minimum of five years 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 5 years.
- Have received no unilateral enforcement orders from EPA or DOH in the past 5 years.
- Have not had a system's operator license suspended or revoked in the past 5 years.
- Are current with DOH 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.

VIII. PRIORITIZED PROJECT LIST

The Final Prioritized Project List for Year 16 of the DWSRF loan program is included as Appendix B. The list includes 54 eligible projects totaling \$130,909,497. Twelve applications, for a total of \$19,585,563, were determined to be ineligible by DOH. Ineligible loan applications are included as Appendix C.

It may take several additional months for funded applicants to address all loan requirements before their contract can be executed (signed by both the applicant and the Public Works Board). Applicants will have 48 months following contract execution to complete their projects.

IX. PUBLIC PARTICIPATION

The Intended Use Plan is subject to a 30-day public review and comment period. On April 11, 2012, DOH e-mailed notices to interested parties, government officials, and applicants stating that the Draft IUP was available for public review and comment and a public hearing on the Draft IUP would be held May 14, 2012 from 1:00 p.m. – 2:00 p.m. at the DOH Town Center 3 building, Room 224, in Tumwater, Washington. The deadline to submit written comments to the DOH will be May 11, 2012.

In addition, DWSRF staff posted legal notices in four newspapers on April 12, 2012 (The Olympian, Seattle Times, Yakima Herald, and Spokesman-Review) advertising the availability of the 2012 Draft Intended Use Plan and the date and time of the public hearing.

X. ASSURANCES AND CERTIFICATIONS

1. **The State has the authority to establish a Fund and to operate the DWSRF program in Accordance with 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 that became available for safe drinking water (RCW 70.119A.170). In 1997, this statute was refined to conform to the DWSRF provisions of the SDWA amendments of 1996.

RCW 70.119A.170 authorizes DOH and the Board, along with the Board’s fiscal agent, COM, as the instruments of the State to establish the framework for DWSRF program administration and manage the program.

Memorandum of Understanding

RCW 70.119A.170 directs DOH and the Board/COM to develop a Memorandum of Understanding (MOU) to define respective roles and responsibilities in the management and administration of the DWSRF. A copy of the MOU is available upon request. In very general terms, the roles are as follows:

- **DOH:** Is the State primacy agent for the SDWA and is responsible for all of the technical and health related aspects of the program, including prioritizing projects that apply for financial assistance and all associated oversight and related activities. DOH is responsible for all set-aside uses of the Grant and DOH is the Grant Recipient and primary contact with EPA.
- **Board/COM:** The Board/COM is responsible for all fiscal management of the Project Fund portion of the program, including development and administration of the loan agreements. The Board/COM performs all fiscal monitoring of Project Fund loan recipients.

The state will periodically review the MOU and will update as necessary. The State will provide a copy of the new MOU to EPA whenever the MOU is amended.

DWSRF Structure of Funds

The legislation establishes the drinking water assistance account as a separate account in the state treasury dedicated solely to utilizing Federal funds for the purposes specified in section 1452(a) of the SDWA, as amended in 1996. The state agencies are authorized to establish sub-accounts as may be necessary for the set-aside funds to be used solely for the purposes specified in federal law.

All funds in this drinking water assistance account, and sub-accounts, including Capitalization Grants, state match, loan repayment and interest, will be separately accounted for and used solely for the purposes specified in section 1452 of the SDWA.

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

The State agrees that in addition to complying with the requirements of the SDWA, it will comply with all State statutes and regulations applicable to DWSRF funds, including the Federal Capitalization Grant funds, the State match, interest earnings, and repayments, and funds used for set-aside activities.

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

DOH and the Board/COM employ and will continue to employ program staff who are qualified to administer the DWSRF. The DOH DWSRF program staff consists of a program manager for the Capital projects portion of the program with a background in the design, operation, and regulation of public water systems and a program manager for the set-asides portion of the funding with fiscal and contracting experience. The remainder of the DOH DWSRF staff consists of technical positions (engineers, planners, or environmental specialists), clerical support, and agency administrative support. Additional staff of engineers and planners is available for assisting with the technical aspects of the DWSRF program administration.

The Board/COM staff consists of full-time professional, fiscal, and administrative staff with extensive background in financial assistance programs. Board/COM staff administers both the state Public Works Trust Fund and the DWSRF program.

4. The State will accept Capitalization Grant funds in accordance with a payment schedule.

The State agrees to accept Grant payments in accordance with payment schedules that will be included with each Grant application or Grant amendment package. These payment schedules will be reviewed at least annually and updated as necessary.

Separate payment schedules will be provided for each Grant and shall cover all funds to be used over the life of the Grant.

The State will receive Federal funds (that is, “payments”) in accordance with the provisions of the EPA-Automated Clearing House (ACH) guidelines.

5. The State will deposit all Capitalization Grant funds in the Fund or Set-aside Account.

The State, as authorized under RCW 70.119A.170, will maintain identifiable and separate accounts for all portions of the Capitalization Grant to be used. The Capitalization Grant will be deposited into either the project loan fund or the set-aside account.

Cash draws from the ACH for set-aside activities will not be allowed until a negotiated workplan between EPA and the State is approved as part of the Grant Agreement.

6. The State will provide an amount at least equal to 20 percent of the Capitalization Grant (State match) in the Fund.

This match will be provided by the State through direct transfer of funds from the Public Works Trust Account and from earnings on this account.

7. The State will deposit net bond proceeds, interest earnings, and repayments into the Fund.

All interest, dividends, earnings, repayments, and other proceeds will be deposited into the Project Fund. The State will not sell bonds to support the DWSRF program.

8. The State will match Capitalization Grant funds the State uses for 1452(g)(2) set-asides.

In addition to the 20 percent match for the overall Grant, the State will provide a 100 percent match for dollars spent on any of the 1452(g)(2) activities as required. This match will be provided by DOH. Fifty percent of this match will come from allowable “credit” for FFY 1993 expenditures. This credit has been documented previously.

9. The State will use Generally Accepted Accounting Principles.

The State agrees to conform to Generally Accepted Government Accounting Standards in connection with the financial management of the DWSRF.

The State accounting and auditing procedures conform to the standards established in, “Governmental Accounting and Financial Reporting Standards”, Governmental Accounting Standards Board Statement 1, July 1984, and “Government Auditing Standards,” GAO dated July 1988 or the most recent updates of these documents as applicable.

The fiscal management of the DWSRF program will allow for proper measurement of: (1) revenues earned by the DWSRF program and other receipts, including, but not limited to, loan repayments, Capitalization Grants, interest earnings, and State match deposits; (2) expenses incurred by the DWSRF program and other disbursements, including but not limited to, loan disbursements, and other expenditures allowed under section 1452; (3) the assets, liabilities, and capital contributions made to the DWSRF program;

(4) the maintenance of the corpus of the Federal and State capital contributions made to the DWSRF program; and (5) the DWSRF performance in relation to its short- and long-term goals.

10. The State will have the Fund and set-aside account audited annually in accordance with Generally Accepted Government Auditing Standards.

The Washington State Auditor's office will annually conduct an audit on the Project Fund and on the Set-Aside Account activities funded by the Capitalization Grant. These audits will be conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States.

A primary purpose of this audit is to ensure that the State has in place provision and guidance to prevent waste, fraud and abuse of funds derived from the Capitalization Grant.

11. The State will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments (or in the case of a privately owned system, demonstrate that there is adequate security).

The state has developed policies and procedures for ensuring that borrowers have a dedicated source of revenue and that privately owned systems have adequate security. These policies and procedures are discussed in the state project loan guidelines.

12. The State will commit and expend funds as efficiently as possible and in an expeditious and timely manner.

The intended use plans provide the basis for how the state will use funds. The state will commit and expend both Grant and state match funds as efficiently as possible, and in an expeditious and timely manner. The state will enter into binding commitments with recipients of Fund assistance equal to the total amount of each grant payment and proportional state match within one year of the grant payment.

13. Funds will be used in accordance with the Intended Use Plan.

The IUPs direct the manner in which the Grant will be used. The IUP underwent public review and comment so that each comment could be considered prior to developing the final IUP. All comments are summarized in the final IUP.

14. The State will provide EPA with a Biennial Report.

DOH and the Board 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.

15. The State will comply with all Federal cross-cutting authorities.

All set-aside activities will be performed in accordance with the Civil Rights Act of 1964, section 504 of the Rehabilitation Act of 1973, and the Age Discrimination Act of 1975. All other cross-cutters applicable to the set-aside activities will be adhered to.

The State has 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.

XI. AUTHORIZATION AND USES OF THE DWSRF PROGRAM

The uses of DWSRF funds are detailed in EPA Federal DWSRF Program guidelines; Washington State statute (Chapter 218, Laws of 1997, RCW 70.119A.170, RCW 43.155.050); Washington State 2012 DWSRF Loan Guidelines, Application, and Rule (WAC Chapter 246-296); and the Memorandum of Understanding between Washington State Department of Health, Washington State Public Works Board and Washington State Department of Community, Trade and Economic Development.

XII. APPENDICIES

**APPENDIX A:
WASHINGTON 2012 DWSRF PROGRAM GUIDELINES AND APPLICATION**

Appendix A is the 2012 DWSRF program guidelines and application available on our website at

www.doh.wa.gov/ehp/dw/Our_Main_Pages/dwsrf.htm

<http://www.doh.wa.gov/ehp/dw/Publications/331-196.pdf>

**APPENDIX B:
YEAR 16 DRAFT PRIORITIZED PROJECT APPLICATION LIST**

Draft Approved List With Principle Forgiveness						
App #	Applicant Name	Project Description	Population	Loan Amount	Amount of Principle Forgiveness	FINAL POINTS
2012-007	PUD#1 of Jefferson County	Kala Point Acquisition, upgrade, consolidation	1,287	\$1,089,000	\$544,500	129
2012-125	Northwood Park Water Association	Alternate Source to Address Nitrate/Copper Contamination	50	\$431,731	\$215,866	125
2012-124	Northwood Water Association	Alternate Source to Address Nitrate Contamination	49	\$525,846	\$262,923	124
2012-013	Sammamish Plateau Water and Sewer District	Sammamish Plateau Water and Sewer District Consolidation of Overdale Water Association	53,800	\$1,126,697	\$563,349	120
2012-137	Tacoma Water	Green River Filter Facility	311,500	\$12,000,000	n/a	117
2012-123	Rathbone Park Wark Association	Alternate Source to Address Nitrate/Copper Contamination	240	\$457,988	\$228,994	117
2012-136	Lakehaven Utility District	Green River Filtration Facility	112,000	\$4,000,000	n/a	111
2012-056	City of Kent Water Utility	Green River Water Treatment Plant Filtration Facility	66,235	\$4,000,000	n/a	111
2012-085	Covington Water	Green River Filtration Facility	44,486	\$4,000,000	n/a	111
2012-029	City of Port Townsend	City of Port Townsend Mandated LT2ESWTR Construction Project	16,158	\$8,606,011	n/a	111
2012-043	Stevens Public Utility	Chattaroy Springs West Water System Consolidation Project	138	\$350,000	\$175,000	111
2012-127	City of Marysville	Edwards Springs Treatment Plant Ultraviolet Disinfection	60,020	\$212,421	n/a	110

2012-009	Camano City Community Club	Water Treatment Plant	266	\$206,871	n/a	109
2012-051	Public Utility District #1 of Thurston County	Arsenic Removal	40	\$211,758	\$63,527	109
2012-037	North Beach Water District	Water Supply and Treatment Improvement Project	4,750	\$2,190,631	\$657,189	104
2012-132	Oysterville Water NP Corp	2013 System Renovation	70	\$347,500	n/a	101
2012-120	Kitsap PUD #1 (North Bainbridge)	Sunset Hills/Manzanita Consolidation	4,577	\$724,630	\$362,315	61
2012-011	Kitsap Public Utility District #1 (Vinland)	North Kitsap Consolidations and Regional Reservoir	2,826	\$2,604,971	\$1,302,486	61
2012-086	Whitworth Water District No. 2	Chattaroy Hills Consolidation	25,608	\$2,987,000	\$896,100	56
2012-063	Public Utility District #1 of Thurston County	Consolidation of Lew's 81st and Two Group B Water Systems	60	\$370,725	\$185,362	53
2012-033	City of Camas	544 Foot Pressure Zone Surface Water Supply Project	19,174	\$6,504,202	\$1,416,590	48
					\$6,874,200.00	

Draft Approved List Without Principle Forgiveness						
App #	Applicant Name	Project Description	Population	Loan Amount	No Principle Forgiveness	FINAL POINTS
2012-080	Public Utility District No. 1 of Clallam County	Fairview Water Supply Project--Replacement Well Site No. 3 and Pipeline Upgrade	8,335	\$3,043,500	*	52
2012-023	Evergreen Valley Utilities	Basin Water System	1,194	\$5,076,158	*	47
2012-015	City of Lynden	City of Lynden Water Treatment Plant Replacement	11,951	\$12,000,000	*	46
2012-002	North Lopez Service	North Lopez Service Consolidation, Upgrade & Expansion	86	\$1,604,500	*	46
2012-103	Town of Almira	Almira Water Reservoir and Treatment Project	302	\$362,000	*	43
2012-081	Martin Creek Community Association	Well #3 Project	76	\$145,000	*	42
2012-068	Public Utility District #1 of Thurston County	Sward/Platt Consolidation	25	\$163,763	*	42
2012-064	Public Utility District #1 of Thurston County	Consolidation of Garden Acres 1, 2 and 3	42	\$86,355	*	41
2012-022	Covington Water District	222nd Wellfield Ground Water Quality Protection Enhancement	44,486	\$1,100,000	*	40
2012-114	City of Benton City	Well #5	2,940	\$580,000	*	40
2012-091	Hartstene Point Water-Sewer District	Water Treatment Plant Improvements	460	\$1,099,144	*	40
2012-070	Snohomish County PUD No. 1	Consolidate Dubuque and Cascade Acres into Lake Stevens Water System	47,900	\$3,630,000	*	39

2012-116	City of Raymond	Riverside Water Tank	3,003	\$3,657,000	*	39
2012-093	City of Toppenish	New 1.7 MG Standpipe Water Reservoir	9,408	\$2,987,000	*	37
2012-057	Town of Creston	Water Reservoir Replacement Project	384	\$310,000	*	37
2012-102	Town of Hatton	Water Main Replacement Project	105	\$928,000	*	37
2012-117	City of Anacortes	Blue Herron Circle Water Storage Tank	20,059	\$5,300,500	*	36
2012-096	Covington Water District	Headquarters Tank Site #1	44,486	\$4,900,000	*	35
2012-087	East Wenatchee Water District	10th Street Reservoir Replacement	26,495	\$4,646,000	*	35
2012-097	City of Goldendale	Lower Reservoir Replacement	3,978	\$1,336,300	*	35
2012-089	Snohomish County PUD No. 1	Consolidate Sky Meadow into SnoPUD1-Dubuque Water System	2,520	\$8,900,000	*	35
2012-067	City of Roslyn	Transmission Line Bridge Crossing	2,316	\$470,900	*	35
2012-098	City of Castle Rock	Carpenter Road Boosted Pressure Zone Phase 1	4,278	\$578,100	*	33
2012-130	Alderwood Water & Wastewater District	Pump Station 2 & 724 Station Upgrades	167,635	\$5,209,990	*	32
2012-014	City of Toppenish	2013 Water System Improvements	9,408	\$1,187,200	*	32
2012-027	North Beach Water District	Water Main Project	4,750	\$882,300	*	32
2012-061	City of White Salmon	2013 Snowden Road/Simmons Road Water Line Project	3,930	\$556,727	*	32

2012-010	Strathview Water District 16	Strathview Water System Rehabilitation	3,339	\$796,200	*	32
2012-095	Public Utility District #1 Thurston County	Terry Lane booster Pump Upgrade	308	\$135,878	*	32
2012-006	PUD#1 Jefferson County	WD#3 Acquisition, upgrade, consolidation	169	\$490,000	*	32
2012-071	Shoreline Water District	North City Pump Station	24,706	\$3,464,000	*	31
2012-072	Shoreline Water District	CIP #60 Water Main Replacement	24,706	\$795,000	*	31
2012-099	City of Selah	2013 Water System Improvements	11,868	\$1,540,000	*	31
				\$130,909,497		

4/12/2012

**APPENDIX C:
YEAR 16 INELIGIBLE, DISQUALIFIED, AND WITHDRAWN PROJECT LIST**

App #	Applicant Name	Population	Loan Amount
2012-108	City of Auburn	51,185	\$740,000
2012-109	City of Auburn	51,185	\$3,500,000
2012-110	City of Auburn	51,185	\$750,000
2012-111	City of Auburn	51,185	\$2,665,000
2012-112	City of Auburn	51,185	\$1,900,000
2012-113	City of Benton City	3,740	\$151,700
2012-084	City of Harrington	481	\$245,917
2012-047	City of Ridgefield	7,712	\$3,731,100
2012-107	Cross Valley Water District	17,280	\$3,144,000
2012-118	Delta Water Association	420	\$30,000
2012-088	East Wenatchee Water District	26,495	\$2,244,000
2012-058	Town of Lind	618	\$483,846

\$19,101,717

4/6/2012