

Washington State Drinking Water State Revolving Fund

Intended Use Plan
For Year 22
Federal Capitalization Grant
DOH 331-534 July 2018



On the cover: The City of Olympia Corrosion Control Treatment Project



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Year 22 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, by June 30, 2018, Health will oversee the entire DWSRF Program.

Washington's Year 22 Intended Use Plan

In federal fiscal year 2018 (FFY 2018), Congress appropriated \$880,757,000 to EPA for the national DWSRF Program. EPA then appropriated funds to the states based on their statewide needs assessment. Washington State will receive \$24,815,000 from EPA to fund capital improvement projects that were ranked and placed on the priority list for state fiscal year (SFY) 2019 (July 1, 2018–June 30, 2019) 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. Including set-aside funds, the state has about \$22,584,640 to use for construction and nonconstruction activities.

Health plans to award capital construction funds to eligible water systems during the summer of 2018. See Table 2 for detailed information. Washington will use \$4,780,649 (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.
- 2017 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. We do not allow noncommunity systems this consideration because, 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 20 percent of the DWSRF Capitalization Grants as loan subsidy to eligible recipients. We have given needy systems nearly \$38,076,475 million in subsidies since 2010 (Table 1, page 3).

For the 2017 funding cycle, the basic loan was a 20-year fixed-rate loan with 1.5 percent interest. 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. one dollar and 20 cents 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.

Table 1

Summary of Washington Subsidy Awards							
SRF Year	Cap Grant Amount	Subsidy Required	Subsidy Committed	% Subsidy Committed	Subsidy Expended	% Subsidy Expended	Notes
14	\$34,650,000	30%	\$11,502,685	33%	\$11,406,799	33%	Subsidy Met
15	\$24,044,000	30%	\$ 7,508,737	31%	\$ 7,205,397	30%	Subsidy met, 1 project open, still drawing
16	\$22,914,000	20-30%	\$ 6,204,374	27%	\$ 6,001,757	26%	Subsidy Met, 2 projects open, still drawing
17	\$21,499,000	20-30%	\$ 4,460,057	21%	\$ 4,431,159	21%	Subsidy Met, 1 project open, still drawing
18	\$19,741,000	20-30%	\$ 3,960,000	20%	\$ 3,332,283	17%	3 projects open, monitoring closely
19	\$19,600,000	20-30%	\$ 4,060,444	21%	\$ 3,324,706	17%	3 projects open, monitoring closely
20	\$18,233,000	20-50%	\$ 3,722,119	20%	\$ 2,374,374	13%	6 projects open, monitoring closely
21	\$18,233,000	20-50%	\$ 4,874,566	27%			Still need to execute contracts (delayed due to capital budget not being passed)
22	\$24,815,000	20-50%	\$ 5,878,204	24%			Contracts to be executed
	\$203,729,000		\$52,171,186	26%	\$38,076,475		

As Table 1 shows, we corrected past shortfalls with the subsidy award and are now meeting all subsidy requirements.

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 have started.
 - 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 new predictive model and provide updates to PFM.
 - 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 funds 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 grant provides 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 Department of Commerce and 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**
 - Complete consolidation of program management exclusively under the Department of Health in collaboration with the Public Works Board and Department of Commerce. Archived and active project files are currently being transferred from Public Works Board and reassigned to Department of Health.

- 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 impact 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 are currently collaborating with other state 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) 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), resiliency projects are now identified in Risk Category 4 for projects. A number of resiliency construction loan projects have been funded to date that include 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.

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 7 DWSRF-eligible projects from our fall 2017 loan cycle plus move one project from the fall 2016 loan cycle (contract not yet executed for Nob Hill Water Association reservoir project) for a total award of about \$19.7 million. In addition, we will award about \$3 million to existing loan holders to assist with increased construction costs associated with lack of a capital budget and subsequent project delays. 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. Without an infusion of new capital into the fund, the fund will continue in and out of a negative fund balance for at least four years. We understand issuing debt requires careful analysis and expertly delivered advice at every turn. Therefore, 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. From this point forward, they will maintain 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 approximately 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)

There is a federal limit on the amount of funds used for each category and the types of activities funded. 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 2019. Washington intends to use 31 percent of its 22nd year capitalization grants for current and future set-aside activities. We will begin using program administration set-aside funds in SFY 2019. Any remaining set-aside funds will be used in SFY 2020. 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.

We will not spend the funds for set-asides, other than the program administration set-aside, until EPA staff approve the detailed work plans we submit to them. We anticipate completing this process and having funds available in SFY 2019.

Program administration set-aside

Washington plans to divide this set-aside between Health and Commerce 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:

- 4 percent of the capitalization grant.
- Flat \$400,000.
- $\frac{1}{5}$ of 1 percent of the total valuation of the state revolving fund balance.

Washington will be using 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 programs set-aside, 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.
- Developing and implementing a coordinated approach to water system asset management to encourage strong financial and managerial capacity in every water system.
- 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.

- Completing a Mid-Columbia resiliency coordination project through the Small Communities Initiative with the 137 small, municipal systems in this basin that face declining aquifers.

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 build the program by engaging with other agencies (state & federal), 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:

- Resources for developing, deploying and enhancing source water protection Intranet and Internet applications; and providing source water protection data, information, mapping, analysis, and GIS support.
- Engaging with local government, using existing regulations to provide improved source water protection.
- Providing financial and technical assistance to local governments and municipal water systems to carry out source water protection projects for high priority Group A sources.
- 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.
- 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 2017, we received, reviewed and ranked 25 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 2017 construction loan cycle. Health decided to award about \$19.7 million in new projects and make \$3 million available for construction cost overruns associated with existing construction loans.

The 2017 State Legislature did not approve a capital budget, resulting in suspension of all DWSRF construction loan projects. A number of loan holders were forced to delay construction until summer of 2018 and now face an increase of about 20 percent in construction costs and materials. Health has placed a high priority on ensuring past funded projects complete construction and therefore, dedicated \$3 million to assist past loan recipients with construction completion. Appendix B shows Washington's recommended 2017 Fall DWSRF Draft Priority Project List for year 22 SRF funding. The list includes a project from the 2016 Fall DWSRF Draft Priority Project List, Nob Hill Water Association reservoir project, as this project has not yet gone to contract. We intend to execute loan contracts and disburse funds to these projects in July 2018.

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 historically designated up to \$1.5 million each year to assist systems when the bid amount exceeds the initial project cost estimate. However, due to project delays associated with lack of a capital budget, we decided to reserve \$3 million to assist loan holders with increased costs. We will use the following criteria to assist systems in need of additional money for construction overruns:

- Award money on a first-come basis.
- Additional amount awarded cannot exceed \$300,000, except for projects that experienced increased costs due to delays associated with the capital budget. Those projects can receive up to \$500,000. We will award additional funding at 1.5 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.

To date, we have received and intend to fund the following requests for construction cost overruns with Year 22 Capitalization Grant funding:

1. City of Ephrata Basin Street Water Main Replacement project loan contract DM16-952-039 for \$303,000.
2. City of Morton Reservoir project loan contract DM 16-952-016 for \$303,000.
3. City of West Richland Reservoir project loan contract DM13-952-170 for \$303,000.
4. Liberty Lake Sewer and Water District consolidation project contract DP 15-952-041 for \$101,322.

Table 2

Washington State Drinking Water State Revolving Fund Financial Status and Intended Uses of Funds Year-22 Federal Capitalization Grants		
CATEGORY	AVAILABLE FEDERAL FUNDS APPLICATION YEAR 22	INTENDED USE (\$)
Total Available		
Federal Capitalization Grant	\$24,815,000	\$24,815,000
20% State Match	\$5,000,000	\$5,000,000
Total	29,815,000	29,815,000
Set-Asides:		
Program Administration	\$992,600	\$992,600
State Program Management	\$2,481,500	\$2,481,500
Small System Technical Assistance	\$496,300	\$496,300
Local Assistance & Other State Programs	\$3,722,250	\$3,722,250
Total Set-Asides	\$7,692,650	\$7,692,650
Project Funds Available From Year 22 Capitalization Grant + Match	\$22,122,350	\$22,122,350
Total Available for New Project Loans	\$22,122,350	\$22,122,350
Total Project Funds and Set-Aside Funds	\$29,815,000	\$29,815,000

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.

DOH staff did meet with CWSRF representatives to discuss the possibility of a transfer between the programs; however, CWSRF stated their funds were all obligated to future projects. Washington does not intend to transfer funds between these programs during Year-22 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 \$19.7 million.
- Construction over-run costs. We allocated \$3 million.
- Emergency loans. We allocated \$500,000.
- Reimbursements for executed construction loan activities.

Table 2 shows the estimated value of the Project Fund. This amount includes 69 percent of the anticipated \$24,815,000 EPA allocation, the entire 20 percent state grant match, loan repayments, investment earnings, and de-obligated loan funds.

7A. Construction Loans

Loan applications

We accepted applications for the Year-22 DWSRF Loan Program October 1 to November 30, 2017. We received 25 applications requesting about \$41 million.

DWSRF staff provided information and technical assistance on the application process at workshops in multiple locations. We sent an email about the workshops and the 2017 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 six 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 projects in Appendix C.

Washington's prioritization process

After assigning a preliminary score based on information in the applications and an initial review of each system's compliance status, our DWSRF and regional staff met January 23, 2018, 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 funding threshold.

We considered 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 2017 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:

- Demonstrated existing or potential SDWA compliance problems.
- Involved restructuring benefits.
- Provided regional benefits.
- Were ready to proceed because of a preconstruction grant, consolidation grant, or preconstruction loan.
- Included service meter installations.
- Had an asset inventory or attended an asset management training program.

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, 2017.
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).

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 have 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 have offered preconstruction loans in the past and had intended to make the following changes to the preconstruction loan starting January 1, 2018 in an effort to better facilitate execution of DWSRF construction loans:

- Preconstruction loans will be available for 1) not-for-profit community water systems, public utility districts, and satellite management agencies (regardless of population); and 2) nonprofit noncommunity water systems serving fewer than 10,000 people.
- Preconstruction loans will be available year-round until \$1.5 million is obligated for these loans. We will process applications and award funds in the order received.
- For the DWSRF construction loan cycle, we will offer a preconstruction loan to applicants that rank high enough for funding but aren't ready to proceed. We will fund the construction loan application and project during the following year's construction loan cycle if we believe they are ready to proceed.

However, due to budget issues, the preconstruction loan cycle has been suspended. We intend to make this funding program available in 2019 and will convert an existing construction loan to a preconstruction loan if desired by a current loan holder. 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 funding, 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 it will be awarded 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 \$500,000 available to water systems. Up to 75 percent subsidy will be available to water systems. We will base subsidy on actual median household income (MHI), proposed loan amount, annual expenses including operation and maintenance, existing debt and revenues, and total connections.

Emergency Fund Application process

Applicants will submit a completed emergency application package to Health. We will post application material online.

Emergency Loan terms

The emergency program will follow all general Office of Drinking Water administrative program policies and DWSRF grant and loan guidelines. The loan terms are:

- Six-year repayment period.
- Project must be completed within two years.
- Maximum amount of \$200,000 per entity.
- 1.5 percent annual interest rate, with the ability to reduce to 1 percent based on the affordability index.
- Principal forgiveness is available based on the affordability index.

8. 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 2018 State Revolving Fund Year 22 Capitalization Grant Federal Funding Accountability and Transparency Act Reporting List				
Total Federal Capitalization Grants				\$24,815,000
Projects and set-asides used for FFATA reporting				\$24,815,000
Loan #	Recipient	Project	Award	FFATA Reporting Amount
2017-2235	Port of Walla Walla	Tyson and Burbank Shell Consolidation	\$6,000,000	\$6,000,000
2017-1967	City of Richland	Lorayne J Water System Consolidation	\$1,842,130	\$1,842,130
2017-2265	Snohomish County PUD	Warm Beach Association Consolidation	\$2,718,847	\$2,718,847
2017-2258	City of Othello	Reservoir Project	\$2,727,000	\$2,727,000
2017-2257	City of College Place	Well # 2	\$1,822,615	\$1,822,615
2017-2241	City of College Place	Christ Community Fellowship Consolidation	\$1,195,431	\$1,195,431
2016-040 moved from 2016 award list, not yet contracted	Nob Hill Water Association	Minnesota Reservoir Replacement	\$3,030,000	\$816,327
Total Projects to Report			\$19,336,023	\$17,122,350
Set Asides Reserved				\$7,692,650

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%	\$300,000
TBD	Consolidation Grants - TBD Multiple recipients	Develop feasibility studies, complete planning and/or engineering documents, or defray the administrative costs directly associated with transfer of ownership and/or connection fees.	10 of 15%	\$300,000
			FFATA Set Asides Total	
			\$600,000	

9. Year 22 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 impact on the size of annual loan payments. The loan fee is waived for subsidy recipients.

Washington deposits loan fees into a sub-account within the DWSRF dedicated account. On March 31, 2018, the cash balance of the loan fee account (Fund 05R) was \$4,780,649. 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 intend to modify 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 2016 project loan applications

Income Level of Households	Interest Rate & Subsidy	Loan Fee	Loan Repayment Period
Water system is not economically disadvantaged	1.5% fixed	1% at loan execution	20 years or life of the project, whichever is less
Projects with basic interest rate of 1.5% that are completed within 24 months of contract execution	1% fixed at project closeout	1% at loan execution	20 years or life of the project, whichever is less
Water system with Affordability Index of 1.5 and 2.0%	1% interest on loan	1% at loan execution	20 years or life of the project, whichever is less
Water system with Affordability Index between 2.01 to 3.5% or debt service coverage of 1.20 or less.	30% principal forgiveness & 1% interest on loan	N/A	24 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	N/A	24 years or life of the project, whichever is less
Eligible restructuring or consolidation projects proposed by municipal Group A water systems. Projects must result in a change in ownership	50% principal forgiveness & 1% interest on loan	N/A	24 years or life of the project, whichever is less
Maximum Award			
The maximum of \$3,000,000 can be awarded to each water system or entity applying this loan cycle. Multiple owners of one project (shared facilities) or a water system or entity that is restructuring or consolidating systems may combine loan limits up to a maximum of \$6,000,000.			
Local Match Requirement			
No local match is required.			

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.

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 the Department of Ecology 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 22 of the DWSRF loan program. The list includes eight eligible projects totaling \$ 19,727,398.

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

See Appendix C for loan applications not funded due to ineligibility that withdrew their application, or declined the loan offer.

10. Public participation

To advertise the availability of the 2017 fall Draft DWSRF Funding List and the date and time of the public hearings, 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 June 8, we notified stakeholders via email that we would accept public comments until July 9, and hold the public meeting July 9 from 10 a.m. to noon at Department of Health, Room 229, Town Center 3, 243 Israel Road, Tumwater, Washington.

The IUP is at <http://www.doh.wa.gov/Portals/1/Documents/pubs/331-534.pdf>

11. 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).

Memorandum of Understanding (MOU)

An MOU is in place to address recent legislation that will transfer all Department of Commerce functions to Department of Health by July 1, 2018. A copy of the MOU is available on request.

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 sub-accounts as necessary.

Health will use this drinking water assistance account solely for the DWSRF and account for all funds in the sub-accounts 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 State Building Construction 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 Washington State Auditor's office 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).
- Memorandum of Understanding between Health, the Board, and Commerce.

12. Appendices

Appendix A: Washington 2016 DWSRF Program guidelines

The 2017 fall DWSRF program guidelines and application are at <http://www.doh.wa.gov/Portals/1/Documents/Pubs/331-196.pdf>

Appendix B: Year 22 Funded DWSRF Loan Applicants List

Health Application	WS ID	Final Score	Water System Name	Project	County	Population	Loan Amount	Client Loan Total w/1% loan fee if applicable)	Possible Subsidy Granted	Comments	Project Description
2017-2235	AB183	124	Port of Walla Walla	Tyson and Burbank Shell Water Consolidation	Walla Walla	1,620	\$6,000,000	\$6,000,000	\$3,000,000	50% subsidy awarded for consolidation	The Port of Walla Walla proposed improvements to allow service to two nearby water systems that exceed nitrate in their drinking water: Tyson and Burbank Shell. In addition, the port needs to improve its existing water system to address a fluoride exceedance. The port proposes to develop two of its existing shallow alluvium wells for blending with the basalt well water, construct two new 5-million-gallon reservoirs, and install about 44,000 linear feet of 30- and 32-inch transmission mains from the wells to the reservoir plus additional distribution mains from the reservoir to Tyson and Burbank Shell.
2017-2241	14050	123	City of College Place	Christ Community Fellowship Water System Consolidation	Walla Walla	115	\$1,195,431	\$1,195,431	\$597,716	50% subsidy awarded for consolidation	This project continues a project funded in 2016. Christ Community Fellowship (CCF) has been under DOH enforcement action for years to address high nitrates (17 mg/L) in its well. The project will consolidate the CCF Water System with City of College Place. Improvements are proposed to be constructed in two phases, and include development of a replacement city-owned well on CCF property drilled into the same Columbia River Basalt Group Aquifer that the city's existing wells are completed within. Project components include installation of 4,500 feet of 12" water main (any additional costs of increasing line size above 8" to be borne by city funding) to connect the proposed well to the existing water system with a flow and pressure similar to the city's existing sources, and consolidation of the city's water rights as they relate to the new well location.
2017-1967	72250	117	City of Richland	Lorayne J Water System Consolidation	Benton	307	\$1,842,130	\$1,842,130	\$921,065	50% subsidy awarded for consolidation	City of Richland will consolidate the Lorayne J water system to allow Lorayne J to abandon its high nitrate well. Lorayne J has exceeded nitrates for years and has been served through an emergency connection with the city. Improvements include about 9,200 feet of 8" water main and 118 water service connections.
2017-2265	23111	70	Snohomish County PUD	Warm Beach Water Association Consolidation	Snohomish	1,450	\$2,718,847	\$2,718,847	\$1,359,424	50% subsidy awarded for consolidation	This project continues a project funded in 2016. The project will consolidate and add resiliency to the Warm Beach Water Association system by connecting with Snohomish PUD 1 – Kayak water system. It will improve treatment and SCADA, replace a well pump, extend about 450 feet of 8" and 12" pipe, replace about 12,050 feet of 6" AC with 8" and 12" pipe, install a pressure-reducing station, abandon unused tanks and pump station, replace 10 hydrants and all service meters.
2017-2226	08236	59	Holiday Hideaway	Aeration Tank 2 (AT2) and Booster Pumps	Skagit	156	\$387,500	\$391,375		AI=0.92	Proposal includes installation of new 59,200-gallon capacity concrete reservoir and booster pump station to increase storage capacity and enhance water quality. Increased storage is designed to protect against seawater intrusion; to regulate withdrawal rates from wells 2, 4 and 5; and to satisfy water right permits conditions. Treatment is designed to reduce iron and manganese concentrations.
2017-2258	64850	44	City of Othello	Reservoir Project	Adams	7,680	\$2,700,000	\$2,727,000		AI = 1.20	The city needs a new reservoir to address a deficiency in standby storage. During the summer of 2015, Othello had an extremely hot summer and experienced mechanical failures in two critical well pumps. While the city frantically worked to repair the well pumps, the city was forced to rely on standby storage to supply its customers. The city enacted water use restrictions during this period to prevent the reservoirs from dropping below the critical elevation that maintains 20 psi in the distribution system. This experience revealed that the city needs more standby storage to provide its customers with safe, reliable drinking water.
2017-2257	14050	43	City of College Place	Well #2	Walla Walla	7,818	\$1,804,569	\$1,822,615		AI = 1.20	The city's existing Well No. 2 experiences vertical displacement during operation that has been progressively creating reliability issues for the water system. The project will include drilling a new well with casing, constructing a well house building, equipping the well with an adequately sized pump and variable frequency drive motor, installing a chlorination system, and on-site piping to connect the well to the existing transmission system.
2016-040	59700	Moved from Year 21 IUP	Nob Hill Water Association	Minnesota Reservoir Replacement	Yakima	29,624	\$3,000,000	\$3,030,000		AI = 0.66	Nob Hill Water Association 2015 Water System Plan identified the need to replace the two existing Minnesota Reservoirs with a single reservoir on the same site with a larger storage volume. The existing reservoirs were constructed with an overflow elevation 6 feet lower than the other reservoirs located in the same pressure zone, resulting in approximately 500,000 gallons of unusable storage. Completion of this project will ensure the Low Zone has a sufficient volume to meet minimum storage requirements.
TOTALS							\$19,648,477	\$19,727,398	\$5,878,204		

Appendix C: Year 22 Ineligible, Unfunded or Withdrawn DWSRF Loan Applicants

Year 22 Unfunded Applicants

Health Application	WS ID	Water System Name	Project	County	Population	Request	Project Description
2017-2232	69750	City of Prosser	Wells 2 and 3 Replacement	Yakima	5,894	\$2,286,135	The city's Wells No. 2 and No. 3 need substantial improvements to increase system reliability and safe production of drinking water for City of Prosser service area. The production of these wells has decreased due to sand entering the casing or formation collapse. Diminished well production could affect the city's ability to satisfy peak demands. The proposed project involves replacing Well No. 2 and Well No. 3 with a new source well. The proposed improvements will include a new well building to house the well, piping, and electrical and control equipment, and desanding equipment (if required).
2017-2256	12400	City of Cheney	Well #3 Redrill Project	Spokane	16,392	\$1,818,000	Well #3 is currently out of commission. This well was developed in 1962 with a production rate of 900 gpm. Since then, production has decreased due to plugging of the basalt rock fissures. The desired yield to meet projected water needs is 900 to 1200 gpm. The project includes preliminary and construction engineering, decommissioning existing Well #3, and a new well drilled near the same location with a targeted depth of 1,200 feet. The project also includes construction of a new well house with updated chemical injection pumps, telemetry controls, site security, and backup generator.
2017-2230	71500	City of Raymond	Raymond Heights Reservoir Rehabilitation	Pacific	4,620	\$1,555,400	The City of Raymond has a single distribution system storage reservoir, known as the Raymond Heights Reservoir. It is a 44-year-old painted steel reservoir with a capacity of 3 million gallons (MG), and is in need of rehabilitation. A 2014 diver-inspection showed a failing coating system and key indicators of metal corrosion throughout the reservoir that are contributing to loss of structural steel. The 3-MG Raymond Heights Reservoir is the second-most valuable asset of the city's water system after the city's water treatment plant. The project consists of installing a smaller reservoir adjacent to the existing 3-MG reservoir to allow the 3-MG reservoir to be taken out of service for re-coating and repairs. This project will also correct the inlet/outlet piping configuration with the addition of a separate outlet line from the existing reservoir that will promote better mixing within the tank.
2017-2255	01300	Alderwood Water & Wastewater District	East Side Water Pressure Reduction Phase 1	Snohomish	183,448	\$3,030,000	This project will create a new 380 pressure zone and a new 330 pressure zone within Alderwood Water & Wastewater District's 520 pressure zone service area. The purpose of this project is to reduce areas of high water pressure that are currently as high as 185 psi. High water pressure can increase the risk of pipe failure, which can be a source of contamination. This project will be accomplished by constructing one new pressure-reducing valve (PRV) station and about two new isolation valves for the 380 pressure zone and three new PRV stations for the 330 pressure zone.
2017-2206	65800	City of Palouse	Palouse Water System Improvements	Whitman	1,167	\$2,588,667	The project consists of: 1) construction of an elevated water storage reservoir adjacent to the city cemetery; 2) upgrade 1,700 LF 4-inch water main to 8-inch water main along Church Street along with 2 hydrants and 19 water services; and 3) upgrade 799 LF 4-inch water main to 8-inch water main along Culton Street with four water services.

Health Application	WS ID	Water System Name	Project	County	Population	Request	Project Description
2017-2404	63450	City of Olympia	Kaiser Road Water Main Extension to Evergreen Parkway	Thurston	68,819	\$864,171	This project will install about 1,300 linear feet of 12-inch diameter water main along Kaiser Road from the LOTT sewer lift station to Evergreen Park Way, increasing service reliability to the Evergreen State College area. The new main will provide looping to the north end of the 298 pressure zone that includes Evergreen State College and 603 single family residences. Currently this area is served by a single 12-inch diameter asbestos concrete main via a pressure-reducing valve from the 380 pressure zone. This 47-year-old main has a history of breaks.
2017-2253	91845	Mason County PUD #1	View Ridge Heights Booster Station	Mason	256	\$97,065	This project is for the installation of a booster pump station to address system low pressure. Hydraulic modeling of the water system has identified system pressure to be below 30 psi (DOH minimum allowed) during peak demand periods; this was also confirmed by customer complaints.
2017-2227	11850	Town of Cathlamet	2018 Water Main Improvements	Wahkiakum	1,630	\$508,751	Proposed project is to install about 2,800 lineal feet of 8-inch water main along Columbia Street from Jacobson Road to State Route 4 and along the south side of State Route 4 to Island View Lane. Currently, potable water in this area is conveyed by a 6-inch asbestos cement (AC) water main that traverses cross-county in a northeast direction through private land from Jacobson Road to State Route 4. The city would abandon the smaller AC water main as part of this project.
2017-2261	88850	City of Toppenish	Pump House and Water Distribution System Upgrade	Yakima	8,950	\$1,310,624	The proposed water main improvements consist of replacement of about 3,750 linear feet (LF) of old, deteriorated, and undersized (4-inch) asbestos cement and cast iron water mains, including lead joints and service line gooseneck connectors with new 8-inch water main, and installation of about 1,300 LF of new 8-inch water main where none currently exists. Improvements will include new valves, fire hydrants, and water services. As the frequency of required repairs has increased in recent years, the city is concerned that one or more of these pipeline sections could fail. Note: This project did not include sufficient lead component replacement work to warrant a higher score.
2017-2266	23581	Woodland Heights Maintenance Association	Pump House and Water Distribution System Upgrade	King	108	\$736,830	Woodland Heights Water System serves a small community of 35 homes in Woodinville. The existing distribution system is about 30 years old and considered to be at the end of its useful life. Leaks were found and repaired in 2012 and 2013. This project includes: 1) Replacing the existing distribution system with about 1,645 lf of 2-inch HDPE piping and 2,975 lf of 8-inch HDPE piping; 2) Installing service meters on all 35 connections; and 3) Merging the two pressure zones by removing an existing pump, installing pressure reducing valves, replacing existing hydropneumatic tanks and installing variable frequency drives on the booster pumps.
2017-2254	34050	Mason County PUD #1	Hood Canal Main Replacement	Mason	604	\$75,531	Hood Canal improvement program identified the need for replacing smaller diameter distribution mains to larger 8-in and 6-in mains to reduce the system leakage, promote water conservation, and maintain capacity as well as improve performance, efficiency, and reliability. There have been positive tests for contaminants in the past within the system.
2017-2231	28970	City of Grandview	2018 Water Main Replacement	Yakima	11,010	\$1,503,764	The proposed water main improvements consist of replacing about 5,100 linear feet (LF) of old, deteriorated, and undersized steel water main (6- and 8-inch) with new 8- and 10-inch water main. Improvements will include new valves, fire hydrants, and water services. As the frequency of required repairs has increased in recent years, the city is concerned that one or more of these pipeline sections could fail.
Total						\$16,374,941	

Year 22 Ineligible and Bypassed DWSRF Loan Applicants

Health Application	WS ID	Water System Name	Project	County	Population	Request	Comments
2017-2264	24190	McKee's Beach	Water System Upgrades	Snohomish	28	\$636,300	Ineligible. No current approved planning document with proposed project.
2017-2236	07301	Grays Harbor County	Copalis Rocks Water System Improvements	Grays Harbor	21	\$370,670	Bypassed. Outstanding audit finding.
2017-2267	37750	Kapowsin/ Pierce County	Kapowsin Transmission Main Repair and New Well	Pierce	70	\$1,068,075	Ineligible. No current approved planning document with proposed project.
2017-2262	76050	Sandy Hook	Well #2	Island	492	\$293,714	Ineligible. No current approved planning document with proposed project.
2017-2259	83100	City of Spokane	High Storage System	Spokane	227,509	\$3,030,000	Bypassed. Outstanding audit finding.
2017-2260	83100	City of Spokane	Five Mile Booster	Spokane	227,509	\$2,272,500	Bypassed. Outstanding audit finding.
Total						\$7,671,009	