

# Washington State Drinking Water State Revolving Fund

Intended Use Plan

For Year 24

Federal Capitalization Grant

DOH 331-534 July 2020



**On the cover:** The City of Selah Palm Park Booster Pump Station.



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## Contents

<b>1.</b>	<b>INTRODUCTION .....</b>	<b>1</b>
<b>2.</b>	<b>CONGRESSIONAL PRIORITIES .....</b>	<b>2</b>
	Table 1 .....	5
<b>3.</b>	<b>WASHINGTON’S PROGRAM GOALS.....</b>	<b>5</b>
<b>4.</b>	<b>SET-ASIDE ACTIVITIES .....</b>	<b>10</b>
<b>5.</b>	<b>CAPITAL LOAN FUNDING .....</b>	<b>14</b>
	Table 2 .....	16
<b>6.</b>	<b>AMOUNTS TRANSFERRED BETWEEN THE DWSRF AND THE CWSRF.....</b>	<b>17</b>
<b>7.</b>	<b>CRITERIA AND METHOD FOR DISTRIBUTING CAPITAL LOAN FUNDS .....</b>	<b>17</b>
	7A. CONSTRUCTION LOANS.....	17
	7B. PRECONSTRUCTION LOANS .....	20
	7C. EMERGENCY LOAN PROGRAM .....	20
	Table 3 .....	22
<b>8.</b>	<b>YEAR 24 CONSTRUCTION LOAN PROCESS AND LIST .....</b>	<b>23</b>
	Table 4.....	24
<b>9.</b>	<b>PUBLIC PARTICIPATION .....</b>	<b>22</b>
<b>10.</b>	<b>ASSURANCES AND CERTIFICATIONS .....</b>	<b>23</b>
<b>11.</b>	<b>APPENDICES .....</b>	<b>26</b>
	Appendix A: Washington 2019 DWSRF Program guidelines .....	26
	Appendix B: Year 24 Funded DWSRF Loan Applicants List .....	27
	Appendix C: Year 24 Drinking Water System Repair and Consolidation (DWSRC) and EPA Small and Disadvantaged Communities (SDC) Funded Applicants* .....	29
	Appendix D: Year 24 Ineligible, Unfunded or Withdrawn DWSRF Loan Applicants.....	30

## **Year 24 Federal Capitalization Grant Intended Use Plan**

### **1. Introduction**

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

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

#### **EPA awards federal DWSRF capitalization grants to states for:**

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

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

### **Washington's Year 24 Intended Use Plan**

In federal fiscal year 2020 (FFY 2020), Congress appropriated \$1,126,088,000 to EPA for the national DWSRF Program. EPA then appropriated funds to the states based on their statewide needs assessment. Washington will receive \$24,598,000 from EPA to fund capital improvement projects that were ranked and placed on the priority list for state fiscal year (SFY) 2021 (July 1, 2020–June 30, 2021) and set-aside projects. Washington uses 69 percent of the capitalization grant for new construction loans and designates the remaining 31 percent of the capitalization grant for nonconstruction set-aside projects, such as special studies and technical assistance. Excluding set-aside funds, but including the 20 percent state contribution, the state has about \$21,892,220 to use for construction activities.

As of March 31, 2020, Washington has a cash balance of \$4,303,815 (generated from loan origination fees) for ongoing administration of the revolving fund loan program. The loan origination fee was increased this year from 1.0 percent to 1.50 percent in order to better cover the cost of staff time in overseeing these projects. However, due to the recent COVID 19 pandemic and the resultant drop in market lending rates, the loan origination fee was reduced back to 1.0 percent.

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

- Status of Washington's DWSRF Program.
- Washington's process and allocation of capital construction and set-aside funds.
- Washington's determination of loan eligibility and funding prioritization.
- Intended uses of additional subsidization.
- Prioritized-project funding list from DWSR 2019 Construction Loan cycle.

## **2. Congressional priorities**

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

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

**Projects necessary to ensure compliance with SDWA requirements.** We review all applications with respect to 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 also allow school districts that own and operate a public water supply to be subsidy-eligible based on corresponding free and reduced lunch metrics. For kindergarten through grade 12 schools that own and operate a Group A water system, we use the following information to determine subsidy:

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

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

All other noncommunity systems were deemed subsidy-ineligible. By definition, noncommunity water systems do not supply water to households; and therefore, they can't meet the federal requirement to base affordability on a "per household basis." To calculate affordability, we use the Affordability Index, a formula that considers an applicant's water rates and median household income.

**Provide at least 20 percent of the DWSRF Capitalization Grants as loan subsidy to eligible recipients.** We have given needy systems about \$45 million in subsidies since 2010 (Table 1, page 3).

For the 2019 funding cycle (SFY 2021), the basic loan rate was advertised in the 2019 DWSRF Construction Loan Guidelines as a 20-year fixed-rate loan with 2.25 percent interest. However, those projects receiving subsidy (awarded as principal forgiveness) were assigned a lower interest rate of 1.75 percent. In response to the current economic challenges statewide due to the COVID 19, we decided to lower the interest rates as advertised in the 2019 DWSRF Construction Loan Guidelines. All executed loan contracts will have a basic interest rate of 1.75 percent and loan recipients meeting the disadvantaged criteria will receive an interest rate of 1.25 percent. For SFY 2021, a minimum of 20 percent of the capitalization is to be awarded as subsidy and this amount equates to \$4,919,600. In addition, \$660,000 is awarded in subsidy in SFY 2021 to address a shortfall of SFY 2020 subsidy award due to a withdrawn project. The program did not issue a funding agreement for Cusick water treatment plant upgrades project (application 2018-3602) due to lack of financial and managerial capacity. Therefore, the minimum amount of subsidy to be awarded in SFY 2021 is \$5,579,600.

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

- Water systems with an affordability index of 2.01–3.50 percent will receive 30 percent principal forgiveness on their loan.
- Water systems with an affordability index of 3.51 percent or more will receive 50 percent principal forgiveness on their loan.
- Restructuring and consolidation projects that involve acquiring other noncompliant, failing, or struggling public water systems that have water quality problems or deteriorated infrastructure will receive 50 percent principal forgiveness on their loan.

Using the criteria listed above, the program could not meet the minimum subsidy award of \$5,579,600. The program decided to award additional principal forgiveness to subsidy-eligible

projects to meet the required subsidy award. This decision was deemed to have minimal effects on the fund as opposed to other options available. Using this approach, the minimum subsidy award still could not be met and another criterion available to the program was used:

- Water systems with a Debt Service Coverage Ratio of less than 1.20:1 (i.e., \$1.20 in net income for every dollar of debt payments due in a year) may also be considered for subsidy if subsidy dollars are still available after using the screening methods above. One project (2019-3731 City of Prosser) met this requirement and was awarded subsidy.

The following projects will receive subsidy:

<b>Project Applicant</b>	<b>Project Name</b>	<b>Funded Amount</b>	<b>Subsidy Award</b>
City of College Place	Christ Community Fellowship Consolidation	\$1,756,391	\$1,756,391
Duck Lake Water Association	Duck Lake-Johnson Creek Consolidation	\$25,000	\$25,000
Bonnie View Water Association	Well #2	\$163,000	\$163,000
Town of Oakesdale	Water System Improvements and Gooseneck Removal	\$2,634,580	\$2,634,580
Mason County PUD No. 1	Bay East Manganese Treatment	\$103,348	\$103,348
Mason County PUD No. 1	Lake Arrowhead Manganese Treatment	\$355,350	\$355,350
City of Prosser	Well No. 2 and No. 3 Replacement	\$2,450,000	\$533,754
Mason County PUD No. 1	Lake Arrowhead Mainline Replacement	\$205,517	\$205,517
<b>Total</b>			<b>\$5,776,940</b>

The final subsidy awards listed above and summarized by year below in Table 1 for SFY 2019, slightly exceed the minimum award amount of \$5,579,600. Additional subsidy was awarded to account for potential de-obligation of funds at project closeout. Final subsidy awards are also listed by project in Appendix B.

**Table 1**

Summary of Washington Subsidy Awards							
SRF/ SFY Year	Cap Grant Amount	Subsidy Required	Subsidy Awarded	% Subsidy Awarded	Subsidy Expended	% Subsidy Expended	Notes
14/ 2011	\$34,650,000	30%	\$11,502,685	33%	\$11,406,799	33%	Subsidy Met
15/ 2012	\$24,044,000	30%	\$ 7,508,737	31%	\$6,926,805	30%	Subsidy Met
16/ 2013	\$22,914,000	20-30%	\$ 6,147,175	27%	\$6,147,175	27%	Subsidy Met,
17/ 2014	\$21,499,000	20-30%	\$ 4,381,590	20%	\$4,381,590	20%	Subsidy Met
18/ 2015	\$19,741,000	20-30%	\$ 3,849,645	20%	\$3,849,645	20%	Subsidy Met
19/ 2016	\$19,600,000	20-30%	\$4,060,444	21%	\$3,573,434	18%	2 projects open, still drawing
20/ 2017	\$18,233,000	20-50%	\$ 3,764,308	21%	\$3,037,108	15%	4 projects open, still drawing
21/ 2018	\$18,233,000	20-50%	\$ 4,446,769	24%	\$333,659	2%	5 projects open, still drawing
22/ 2019	\$24,815,000	20-50%	\$ 5,878,205	24%	\$0	0%	4 projects open, still drawing
23/ 2020	\$24,583,000	26-56%	\$6,451,900	26%	N/A	N/A	Contracts need to be executed.
24/ 2021	\$24,598,000	20-50%	\$5,776,940	23%	N/A	N/A	Contracts need to be executed.
<b>Total</b>	<b>\$252,910,000</b>		<b>\$63,768,398</b>				

### 3. Washington's program goals

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

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

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

**Goals:** Washington state's public water systems are safe, reliable, and sustainable, and water is affordable for all citizens.

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



## Short-term goals

- **Assess our fund management system for opportunity.**
  - Continue to work with Public Financial Management consultants (PFM) on the predictive model and provide financial updates to PFM quarterly.
  - Adjust interest rates to address long-term inflation and provide for fund sustainability.
  - Monitor effects of loan repayment changes recently implemented and consider increasing loan repayments to twice per year, which would help stabilize the fund's cash flow while also providing a less burdensome payment structure to our clients.
- **Continue to grow and expand programs that improve readiness to proceed and improve use-rate of construction money awarded.**
  - Contact construction loan recipients experiencing delays with their projects to review options that would allow their project to reach construction. If needed, convert the construction loan to a preconstruction loan to allow the entity to continue with preconstruction activities.
  - Conduct an annual review of readiness-to-proceed criteria for construction loans and improve the criteria to better identify "shovel ready" applicants.
  - Consider new loan eligibility criteria to include past performance on DWSRF loans. For instance, jurisdictions that have needed multiple time extensions on current open DWSRF loans may be deemed ineligible for a new loan until construction on all existing loans is completed.
- **Ensure that at least 15 percent of the available funds provide financial assistance to small systems that have projects ready for construction.**
  - Technical assistance providers and DWSRF staff are available to help systems prepare for construction loans, such as assistance with rate setting, training on DWSRF construction loan funding, and income surveys.
- **Provide financial and technical assistance to help public water systems increase technical, financial, and managerial capacity.**
  - Continue to provide technical assistance through two contracts: Rural Community Assistance Corporation and Small Community Initiatives. These technical providers assist systems with board training, funding applications, rate setting, and asset management.
  - Offer asset management training.
  - Continue to collaborate with Commerce and the Department of Ecology on small system training on infrastructure funding. We offer these trainings at four locations around the state each year.

- **Review and implement process improvement efficiencies**

- Evaluate current systems and determine the feasibility of electronic payments for water system invoices.
- Improve water system contact information and determine whether invoicing can be done electronically.
- Provide training and resources on DWSRF online application (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.
- Encourage funding applicants to coordinate water main replacement projects with other infrastructure projects, such as transportation improvement, fish-passage barrier removal, or sewer-line replacement projects. DWSRF applicants that combine infrastructure projects will receive bonus points or, in some instances, a certain amount of guaranteed loan funding.

### Long-term goals

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

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

- **Acknowledge and address household affordability constraints.**

Strategically use the DWSRF subsidy provision and any applicable set-aside funds to maximize the program's effect on achieving affordable compliance. Washington will regularly reevaluate the affordability criteria to ensure that public water systems in greatest need of help receive subsidy and technical assistance. DOH staff currently collaborate with other funding agencies to better assess hardship criteria and to develop more uniform criteria for establishing hardship.

The system improvement team (Sync) was created by the Legislature in [HB 1677](#) to "identify, implement, and report on improvements" to the state's infrastructure systems. The Public Works Board; the departments of Commerce, Ecology and Health; the Transportation Improvement Board and the Washington State Department of

Transportation are synchronizing their efforts to propose a single methodology to determine subsidy and affordability requirements.

**Use DWSRF funds to promote resilient, energy-efficient infrastructure.**

- Encourage an investment-grade energy audit for construction loans where the project results in an increased energy demand (pumping or treatment plant projects) for water systems serving communities with a population of 10,000 people or more.
  - To better promote resiliency projects (such as seismic upgrades, relocating sources, or installing generators), we now identify resiliency projects in Risk Category 4 for projects. A number of resiliency construction loan projects have been funded to date, including seismic upgrades to finished reservoirs, installation of generators at main sources, and interties.
  - Consider a new risk category to address regional issues for water systems in the state experiencing declining aquifers and water shortages, such portions of the Mid-Columbia Basin.
- **Continuously improve the DWSRF Program so we are more efficient and better able to serve our customers.**
    - Improve the online application process.
    - Develop electronic invoicing and payments for our loans.
    - Educate water systems about the DWSRF Construction Loan Program before each loan cycle.
    - Maintain emergency funding to assist systems affected by unforeseen events and to ensure they continue to maintain public health protection.
    - Maintain ability to award additional funding for existing DWSRF loans to address escalating construction costs that exceed funding amount and allow project completion.
    - Develop new funding program for SFY 2021 for water main replacement-only projects to address stakeholders' requests to support replacement of old and failing water mains. Because of the scoring and ranking of DWSRF project applications based on health risk being addressed, water main projects have not ranked high enough for funding in recent years.
  - **Re-establish the Consolidation Feasibility Study Grant funding program.**

The Consolidation Feasibility Study Grant funding program was suspended temporarily in 2017, due to budget issues associated with the state Legislature not passing a capital budget. Historically, this grant program was funded through set-asides. Our stakeholders found great value in these small grants (up to \$30,000 per project), which allowed the study of potential transfer of ownership and consolidation projects to address compliance or capacity issues. This funding program was re-established in 2020,

and we intend to offer the Consolidation Feasibility Study Grant Program in SFY 2021, using our loan origination fee fund.

- **Continue to promote asset management**

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

### Environmental Results Goals

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

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

- **Annual percentage of assistance agreements to bring water systems into compliance.** Based on available funds, Washington proposes to fund 15 DWSRF-eligible projects from our fall 2019 loan cycle with 69 percent of the capitalization grant funding, for a total award of about \$21.6 million (see Appendix B). Using a combination of state-appropriated funding and EPA grant funding, we will also fund six consolidation construction projects (see Appendix C). 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.** This indicator is commonly referred to as "pace" and it measures how well the state is putting its available funds into loans. States should target pace levels near or above 100 percent. States that are lagging in this measure, or have declining pace levels, may need to review loan policies and procedures, and outreach techniques. Nationally, pace was 95 percent for the DWSRF in 2019 (cumulative). States with pace levels greater than 100 percent are generally practicing advanced loan commitment. Pace does not measure how quickly funds are disbursed after the loan agreement has been signed. The table below shows the fund utilization rate for Washington state, our Region 10, and the nation for the past three state fiscal years.

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

#### 4. Set-aside activities

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

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

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

Our staff, third-party contractors, or direct funding to public water systems are examples of set-aside assistance. Washington will use funds from these capitalization grants to fund activities during more than one state fiscal year. However, to keep unliquidated obligations at a minimum, the state 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 2021. Washington intends to use 31 percent of its 24<sup>th</sup> year capitalization grants for current and future set-aside activities. We will begin using program administration set-aside funds in SFY 2021. Any remaining set-aside funds will be used in SFY 2022. The subsections below describe how Washington intends to use these set-aside funds.

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

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

### **Program administration set-aside**

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

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

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

### **State program management set-aside**

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

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

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

### **Small system technical assistance set-aside**

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

### **Local assistance and other state programs set-aside**

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

### **Capacity Development and Water System Sustainability**

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

Even during this time that COVID-19 is affecting our operations, 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 state now and into the future. Washington state will use 10 percent of the Local Assistance and Other State Programs set-aside to provide DWSRF capacity development assistance in the form of financial assistance, technical assistance, sanitary surveys, and other types of program support to drinking water systems. Capacity development activities include, but are not limited to:

- Providing outreach and communication tools on technical, managerial, and financial capacity on our website and other media outlets.
- Conducting sanitary surveys while following infection control measures to minimize the spread of COVID-19.
- Providing technical assistance to small systems on topics ranging from arsenic treatment process control to disinfection best practices.

- Supporting water systems as they respond to issues related to COVID-19 that affect their operations, including guidance and support for staffing, supply chains, and emergency preparedness and response.
- Providing specific technical assistance (such as coliform monitoring and follow-up requirements) to help water systems achieve and maintain compliance.
- Maximizing public health protection through problem identification, correction, and performance optimization of existing surface water treatment plants.
- Partnering with state and federal agencies to support and maintain water system emergency response capacity.
- Helping public water systems research and determine whether their groundwater source is under the direct influence of surface water.
- Offering technical assistance to water systems to develop and implement source-water protection programs, set rates, train new board members, and seek funding for projects.
- Providing training across the state for water system operators, owners, and decision makers to increase knowledge of operations and improve performance.
- Collaborating with other funding and technical assistance agencies to provide technical team meetings for jurisdictions developing water infrastructure projects anytime during the year. The technical meetings allow jurisdictions the ability to learn about available funding sources, how to apply for funding, and technical assistance that can be provided for project development.
- Implementing a coordinated approach to water system asset management programs with other state and federal agencies to encourage strong financial and managerial capacity in every water system. Activities include asset management and rate setting training for operators, decision-makers and other stakeholders; improved education and training for state staff on assessing financial capacity of public water systems to improve technical assistance and plan review; and encouraging regionalization activities to achieve economies of scale and improve utility sustainability through training and outreach efforts. In addition, the DWSRF Program awards bonus points for asset management and requires DWSRF construction loan recipients without an asset management program to develop an asset management program as part the funding package. The program provides additional funding, up to \$40,000, to loan recipients to develop the asset management program.
- Working with partners to communicate the value of safe and reliable drinking water, so the people of Washington understand and support investments in our water systems.



## Source Water Protection

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

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

- Maintaining and enhancing source water protection Intranet and Internet applications; and providing source-water protection data, information, mapping, analysis, and GIS support.
- Reviewing local government regulations and identifying modifications that will provide improved source water protection.
- Providing financial and technical assistance to local governments and municipal water systems to carry out source-water protection projects.
- Providing source-water protection outreach and communication tools on our website and other media outlets.
- Offering technical assistance to water systems to develop and implement source-water protection programs.
- Coordinating and collaborating with other agencies on plans or projects to improve water quality of all sources of drinking water.
- Reviewing and commenting on water quality and quantity regulations at all levels of government that could affect the drinking water sources.
- Participating in climate change and drought preparedness activities.
- Working with others to evaluate and develop policies and rules relating to unregulated contaminants.
- Providing training across the state for water system operators, owners, and decision makers to increase knowledge about source water protection, emerging contaminants, and watershed health.
- Working with communities to protect the quantity and quality of their source water.

## 5. Capital Loan Funding

In November 2019, we received, reviewed, and ranked 23 construction loan applications with a total request of \$23 million. Health decided to make up to \$26 million available for new construction projects; therefore, all eligible applicants were awarded funding. We also decided

to fund any unfunded eligible projects from the fall 2018 construction loan cycle (Westport, Raymond, Camano Vista Water District, and Camaloch Water Association).

Appendix B shows Washington's recommended 2019 Fall DWSRF Draft Priority Project List for year 24 SRF funding. We intend to execute loan contracts and disburse funds to these projects in July 2020, at the earliest, depending on release for the capitalization grant funding. As seen in Appendix B, subsidy-eligible projects received more than the advertised amount of principal forgiveness in the 2019 DWSRF Construction Loan Guidelines. The program decided to award additional principal forgiveness to subsidy-eligible projects to meet the required subsidy award (minimum of 20 percent of the capitalization grant plus \$660,000 in subsidy from last year due to a withdrawn application). This decision was deemed to have minimal effects on the fund as opposed to other options available.

In addition, the 2019 state budget included \$1,500,000 for Drinking Water System Repairs and Consolidation (DWSRC) projects (formerly known as the Water System Acquisition and Rehabilitation Program (WSARP)). DWSRC funding was designated for consolidation, restructuring, or receivership projects that result in public ownership of the water system (town, city, county, public utility district, or water district). DWSRC funding was made available for consolidation feasibility study grants through the DWSRF Consolidation Feasibility Grant Funding program (\$60,000) along with the 2019 DWSRF Construction Loan funding cycle for consolidation construction projects, with 3 percent reserved for administrative costs. This funding strategy allows for \$1,395,000 available to award to five consolidation construction projects. We also intend to use the EPA Small and Disadvantaged Communities Drinking Water Grant (SDC) to help fund three consolidation construction projects using DWSRC funding as required state match. A total of \$916,000 is being requested from EPA for three consolidation construction projects. Appendix C lists the consolidation construction projects and proposed funding matrix.

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

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

The Washington DWSRF Program will continue to make funding available to assist systems when the bid amount exceeds the initial project cost estimate. Due to recent escalation in construction materials, particularly pipe and labor, we decided to reserve \$1.5 million to assist loan holders with increased costs. We will use the following criteria to assist systems in need of additional money for construction overruns:

- Award money on a first-come basis.
- Additional amount awarded cannot exceed \$300,000. We will award additional funding at 1.75 percent interest and 1.0 percent loan origination fee.
- The scope of work cannot be modified.
- Bid tabs must be provided to document construction costs.
- Loan holders must provide an explanation for the increased costs.
- Additional funding will also be provided for increased costs for COVID-19 safety plan implementation.

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

**Table 2**

<b>Washington State Drinking Water State Revolving Fund Financial Status and Intended Uses of Funds Year-24 Federal Capitalization Grants</b>		
<b>CATEGORY</b>	<b>AVAILABLE FUNDS APPLICATION YEAR 24</b>	<b>INTENDED USE (\$)</b>
<b>Total Available</b>		
Federal Capitalization Grant	\$24, 598,000	\$24,598,000
20% State Match	\$4,919,600	\$4,919,600
<b>Total</b>	<b>\$29,517,600</b>	<b>\$29,517,600</b>
<b>Set-Asides:</b>		
<b>Program Administration (4%)</b>	\$983,920	\$983,920
<b>State Program Management (10%)</b>	\$2,459,800	\$2,459,800
<b>Small System Technical Assistance (2%)</b>	\$491,960	\$491,960
<b>Local Assistance &amp; Other State Programs (15%)</b>	\$3,689,700	\$3,689,700
<b>Total Set-Asides</b>	<b>\$7,625,380</b>	<b>\$7,625,380</b>
<b>Project Funds Available From Year 23 Capitalization Grant + Match</b>	\$21,892,220	\$21,892,220

<b>Total Available for New Project Loans</b>	<b>\$21,892,220</b>	<b>\$21,892,220</b>
<b>Total Project Funds and Set-Aside Funds</b>	<b>\$29,517,600</b>	<b>\$29,517,600</b>

## 6. Amounts transferred between the DWSRF and the CWSRF

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

Washington does not intend to transfer funds between these programs during Year-24 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 \$24.5 million.
- Construction over-run costs. We allocated \$1.5 million.
- Emergency loans. We allocated \$1 million.
- Reimbursements for executed construction loan activities.

### 7A. Construction Loans

#### Loan applications

We accepted applications for the Year 24 DWSRF Loan Program from October 1 to November 30, 2019. We received 23 applications requesting about \$23 million.

DWSRF staff provided information and technical assistance on the application process at workshops in multiple locations and through two webinars. We sent an email about the training opportunities and the 2019 DWSRF guidelines and application to all eligible public water systems and placed a notice in our *Water Tap* newsletter. Systems could get the guidelines online, request hard copies, or get them as electronic email files.

#### Washington's eligibility and threshold review

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

We determined that two projects were ineligible and three projects were withdrawn by the applicant. Ineligible applicants were provided the opportunity to appeal our determination; we received no appeals. See ineligible and unfunded projects in Appendix D.

### **Washington's prioritization process**

After assigning a preliminary score based on information in the applications and an initial review of each system's compliance status, our DWSRF and regional staff met January 28, 2020, to assign final scores. Staff reviewed compliance files from regional offices and discussed the merits of each project. Regional office files contain considerable background information on each system's operational and compliance history, which was valuable in assessing the true public health significance of each proposal.

As previously described, we assessed each project for its ability to receive principal forgiveness, or subsidy. We decided it was in the best interest of the fund to limit subsidy award to those systems that were deemed subsidy-eligible per the criteria provided in Table 4, as advertised in the DWSRF 2019 Construction Loan Guidelines.

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

### **Ranking eligible applications**

Using the criteria in Washington's fall 2019 DWSRF Guidelines to score eligible loan applications, we awarded "basic points" and "bonus points."

We awarded basic points by the:

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

We gave "bonus" points to project applicants that:

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

### **Water System Capacity Review**

"Water system capacity" is an eligibility requirement for DWSRF loans.

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

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

1. The applicant must have a current, Health-approved Water System Plan (WSP) or Small Water System Management Program (SWSMP). The WSP must not expire on or before November 30, 2019.
2. The applicant's current, Health-approved WSP or SWSMP must include the proposed project.
3. The water system must have a satisfactory operating permit status at application or on completion of the proposed project.
4. The system must be in compliance with any active enforcement actions (including departmental orders, penalties, bilateral compliance agreements, or federally issued administrative orders or stipulated penalties).
5. The board or council that oversees the water system must have all positions filled, meet regularly, and provide meetings minutes for review.
6. The water system must verify that it maintains operational and maintenance records.
7. The water system must have a properly certified operator.

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

### **Financial capacity**

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

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

### **Readiness to proceed**

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

- Is the scope of work clearly defined?
- Are water rights in hand? If not, what is the timeline for securing water rights?
- Is preliminary engineering complete?
- Have project permits been obtained or are they in process?

- Is land acquisition part of the project? If so, have rights of way and easements been secured?
- Is the project located near or on a known archaeological site or environmentally sensitive area?

## **7B. Preconstruction Loans**

We will make preconstruction loans available to existing construction loan holders that are having difficulty making progress. In these instances, we will terminate the construction loan and replace it with a preconstruction loan. The maximum award of the preconstruction loan is \$300,000 and the preconstruction loan term is six years. Future DWSRF construction loan funding cycles will grant bonus points to entities that received a preconstruction loan from any funding program.

## **7C. Emergency Loan Program**

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

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 or other event that damages or disrupts normal public water system operations and requires immediate action to protect public health and safety. A failure to maintain, replace, reconstruct, upgrade, or make necessary infrastructure improvement does not constitute an emergency.

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.

### **Availability of Emergency funds**

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

### **Emergency Fund Application process**

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

### **Emergency Loan terms**

The emergency program will follow all general Office of Drinking Water administrative program policies and DWSRF grant and loan guidelines. We have made recent modifications to the emergency loan program to align with Department of Ecology's emergency loan program. The loan terms are:

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

### **Federal financial accountability and Transparency Act reporting**

Washington is required to identify projects used to satisfy capitalization grant reporting requirements under the Federal Financial Accountability and Transparency Act (FFATA). See Table 3. As EPA requested, we will report only on DWSRF projects in an equivalent amount of each capitalization grant.



**Table 3**

<b>Federal Fiscal Year 2020 State Revolving Fund Year 24 Capitalization Grant Federal Funding Accountability and Transparency Act Reporting List</b>				
<b>Total Federal Capitalization Grants</b>				\$24,598,000
<b>Projects and set-asides used for FFATA reporting</b>				\$24,598,000
<b>Loan #</b>	<b>Recipient</b>	<b>Project</b>	<b>Award</b>	<b>FFATA Reporting Amount</b>
2019-3457	City of College Place	Christ Community Fellowship (CCF) Water System Consolidation	\$1,716,391	\$1,716,391
2019-3753	Town of Oakesdale	Oakesdale Water System Improvements - Phase 1	\$2,634,580	\$2,634,580
2019-3731	City of Prosser	Well No. 2 and 3 Replacement	\$2,450,000	\$2,450,000
2019-3458	Beacon Hill Water and Sewer District	Skyline Reservoir and Pump Station	\$2,020,000	\$2,020,000
2019-3456	City of College Place	Well No. 2 Relocation	\$2,649,944	\$2,649,944
2019-3761	City of Deer Park	Sixth Street Reservoir Replacement	\$3,888,114	\$3,888,114
2019-3764	City of Kalama	Lower Green Mountain Reservoir and Booster Pump Station	\$1,292,295	\$1,292,295
2019-3772	Uniontown	Lead Joint Pipe Replacement	\$1,061,510	\$321,296
Total Projects to Report			\$17,712,834	\$16,972,620
Set Asides Reserved				\$7,625,380

<b>Set Aside Projects—Draft FFATA List</b>				
<b>Contract #</b>	<b>Contractor Name</b>	<b>Description</b>	<b>Set aside</b>	<b>Amount</b>
TBD	TBD	Provides assistance to local governments and municipal water systems (counties, cities, incorporated towns, and special purpose districts) to carry out source water protection projects to better protect high priority Group A sources.	5 of 15%	\$162,000
		<b>FFATA Set Asides Total</b>		<b>\$162,000</b>

## 8. Year 24 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. However, this year we are able to fund all eligible projects and even included unfunded projects from last year on our priority list.

### Loan Fees

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

Washington deposits loan fees into a sub-account within the DWSRF dedicated account. On March 31, 2020, the cash balance of the loan fee account (Fund 05R) was \$4,303,815. By statute, interest or other investment income accrued in this account remains in this account. We may withdraw funds from this account only to reimburse state loan program administration. However, if the state determines that the balance of the loan fee account exceeds short- and long-term program administration needs, we may transfer a portion of the funds to the project loan account to be used for project loans.

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

### Affordability Index

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

**Table 4**  
**Loan terms for 2019 project loan applications**

<b>Income Level of Households</b>	<b>Interest Rate and Forgiveness</b>	<b>Loan Fee</b>	<b>Loan &amp; Fee Repayment Period</b>	<b>DWSRC Funding for Consolidation, Restructuring, and Receivership Projects***</b>
Water system is not economically disadvantaged	1.75% interest on loan	1.0% at loan execution*	20 years or life of the project, whichever is less	\$0
Water system with an affordability index between 1.5% and 2.0%	1.25% interest on loan	1.0% at loan execution*	20 years or life of the project, whichever is less	Up to \$100,000
Water system with an affordability index between 2.01% and 3.5%	1.25% interest on loan, 30% principal forgiveness	**	20 years or life of the project, whichever is less	Up to \$200,000
Water system with an affordability index of 3.51% or greater	1.25% interest on loan, 50% principal forgiveness	**	20 years or life of the project, whichever is less	Up to \$375,000
Eligible restructuring, consolidation, and receivership projects	1.25% interest on loan, 50% principal forgiveness	**	20 years or life of the project, whichever is less	Depends on affordability index of system being consolidated or received as listed above
<b>Maximum Award</b>				
The maximum award to each water system/entity is \$3,000,000 unless adequate funds are available to fund all eligible projects. Multiple owners of one project (shared facilities) or projects that result in restructuring or consolidating two or more systems may combine loan limits up to a maximum of \$6,000,000.				

Loan Fees
<p>*The loan fee is not subject to the loan limit. For example, if a project is budgeted at \$3,000,000, the applicant can apply for a \$3,030,000 loan—\$3,000,000 for the project plus the \$30,000 loan fee.</p> <p>**Water systems receiving subsidy are not subject to loan fees.</p> <p>***Consolidation, restructuring, and receivership projects qualify for both DWSRF loan funding (with up to 50% principal forgiveness) and DWSRC funding. DWSRC funding is awarded based on the affordability index of the system being consolidated, restructured, or received.</p>

## Restructuring and Consolidation Projects

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

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

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

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

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

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

As previously described, we also made \$1,395,000 of state-appropriated funding (DWSRC) available for consolidation, restructuring, and receivership projects in the 2019 DWSRF construction loan cycle. A portion of this funding is being used as required state match to secure EPA Small and Disadvantaged Communities Water System Grant funding. The list of funded consolidation construction projects and associated funding sources is in Appendix C.

### **Environmental and Cultural Review Process**

All funded construction loan projects undergo environmental and cultural reviews.

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

### **Prioritized Project List**

See Appendix B for Washington's final Prioritized Project List for Year 24 of the DWSRF loan program. The list includes 15 eligible projects totaling \$21,621,386.

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

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

## **9. Public participation**

To advertise the availability of the 2019 fall Draft DWSRF Funding List, we emailed 2,648 stakeholders on the availability of the IUP. Stakeholders include all regulated water systems, tribal entities, and state associations (such as water and sewer districts). The IUP was posted and available for public comment for 30 days; no comments were received from the public.

This final IUP is available at [doh.wa.gov/Portals/1/Documents/pubs/331-534.pdf](https://doh.wa.gov/Portals/1/Documents/pubs/331-534.pdf).

## **10. Assurances and Certifications**

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

#### **State Law**

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

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

#### **DWSRF fund structure**

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

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

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

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

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

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

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

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

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

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

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

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

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

The state will deposit all interest, dividends, earnings, repayments, and other proceeds into the project fund. The state does not currently sell bonds to support the DWSRF Program.

**8. The state will use Generally Accepted Accounting Principles.**

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

**The fiscal management of the DWSRF Program will properly measure:**

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

**9. The state will have the fund and set-aside account audited annually according to Generally Accepted Government Auditing Standards.**

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

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

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

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

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

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

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

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

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

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

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

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

**15. Authorization and uses of the DWSRF Program**

DWSRF fund authorization and uses are in:

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



## 11. Appendices

### Appendix A: Washington 2019 DWSRF Program guidelines

The 2019 fall DWSRF program guidelines and application are at [doh.wa.gov/Portals/1/Documents/Pubs/331-196.pdf](https://doh.wa.gov/Portals/1/Documents/Pubs/331-196.pdf)

## Appendix B: Year 24 Funded DWSRF Loan Applicants List

Health Application	Water System ID	Final Score	Applicant Name	Project	County	Population	Loan Amount	Client Loan Total w/ 1.0 % loan fee if applicable)	Subsidy Award	Comments	Project Description
2019-3457	14050	120	City of College Place	Christ Community Fellowship (CCF) Water System Consolidation	Walla Walla	100	\$1,756,391	\$1,756,391	\$1,756,391	Consolidation project, qualifies for 50% principal forgiveness. *	This project continues a project funded in 2016 and 2017. 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 and CCF to the existing water system and consolidation of the city's water rights as they relate to the new well location.
2019-3762	20200	112	Duck Lake Water Association	Johnson Creek and Duck Lake Consolidation	Okanogan	48	\$25,000	\$25,000	\$25,000	Consolidation project, qualifies for 50% principal forgiveness. *	Johnson Creek Water Users Association is under a compliance order for exceeding the uranium and arsenic maximum contaminant levels. Johnson Creek drilled a new well in an attempt to find adequate drinking water, but the new well had high levels of uranium. This project will allow Johnson Creek to connect to Duck Lake through a new intertie (approximately 14,000 feet long) to obtain safe and reliable drinking water. Improvements also include a new booster pump station. At the end of the project, Johnson Creek and Duck Lake will become one water system.
2019-3766	07700	108	Bonnie View Water Association	Well #2	Island	44	\$163,000	\$163,000	\$163,000	AI=2.93, qualifies for 30% principal forgiveness. *	Bonnie View Water Association is under a compliance order to address arsenic exceedance in its existing well. The proposed project is to drill and equip a new well in the deeper aquifer where arsenic concentrations should be lower.
2019-3753	62700	95	Town of Oakesdale	Oakesdale Water System Improvements - Phase 1	Whitman	520	\$2,634,580	\$2,634,580	\$2,634,580	AI=2.15, qualifies for 30% principal forgiveness. *	This project will include removal and replacement of lead goosenecks throughout the distribution system. In addition, approximately 11,000 lineal feet of old water main pipe will be replaced and new water meters will be installed.
2019-3763	04852	59	Mason County PUD No 1	Bay East Manganese Treatment	Mason	94	\$103,348	\$103,348	\$103,348	AI=2.15, qualifies for 30% principal forgiveness. *	The Bay East water system has manganese that exceeds the secondary maximum contaminant level. Manganese accumulates within the distribution system, resulting in water quality and hydraulic issues. This project will install filtration treatment to remove manganese from the well water.
2019-3755	43600	57	Mason County PUD No 1	Lake Arrowhead Manganese Treatment System	Mason	326	\$355,350	\$355,350	\$355,350	AI=2.65, qualifies for 30% principal forgiveness. *	The Lake Arrowhead water system has manganese that exceeds the secondary maximum contaminant level. Manganese accumulates within the distribution system, resulting in water quality and hydraulic issues. This project will install filtration treatment to remove manganese from the well water.
2019-3731	69750	56	City of Prosser	Well No. 2 and No. 3 Replacement	Benton	6,145	\$2,450,000	\$2,450,000	\$533,754	AI=1.08, Debt Service Coverage=0.66, qualifies for 30% principal forgiveness. *	Prosser lost the use of one of its high producing wells in 2008 and another well is in need of substantial repairs. This project will replace these two wells with one new high producing well to meet demands.
2019-3456	14050	53	City of College Place	Well No. 2 Relocation	Walla Walla	8,115	\$2,623,707	\$2,649,944	0	AI=1.76, project qualifies for lower interest rate of 1.25%.	This project is a continuation of a project funded in 2017. 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, 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.

Health Application	Water System ID	Final Score	Applicant Name	Project	County	Population	Loan Amount	Client Loan Total w/ 1.0 % loan fee if applicable)	Subsidy Award	Comments	Project Description
2019-3761	18500	50	City of Deer Park	Sixth Street Reservoir Replacement	Spokane	4,150	\$3,889,618	\$3,928,514	0	AI=0.93, project does not qualify for principal forgiveness.	One of Deer Park's existing finished water storage reservoirs is in need of replacement. The interior liner is failing along with concerns with deterioration of the tank exterior and lack of seismic resiliency. This project will include construction of a new finished storage reservoir that meets seismic standards
2019-3764	37550	46	City of Kalama	Lower Green Mountain Reservoir and Booster Station	Cowlitz	5,939	\$1,279,500	\$1,292,295	0	AI=0.63, project does not qualify for principal forgiveness.	This project will include replacement of an older, undersized finished water storage reservoir to allow Kalama to meet water demands. In addition, a new booster pump station will be constructed.
2019-3771	71500	44	City of Raymond	Raymond Heights Reservoir Rehabilitation	Pacific	4,270	\$1,030,000	\$1,040,300	0	AI=1.51, project qualifies for lower interest rate of 1.25%.	This project is to rehabilitate the interior of City of Raymond's existing 3 MG reservoir, the city's only water reservoir. <i>Note: Project submitted in 2018; eligible but not funded. Will be funded this year.</i>
2019-3458	15650	43	Beacon Hill Water and Sewer District	Skyline Reservoir and Pump Station Improvements	Cowlitz	11,537	\$2,000,000	\$2,020,000	0	AI=1.53, project qualifies for lower interest rate of 1.25%.	Beacon Hill Water and Sewer District needs to replace an undersized finished storage reservoir to meet water system demands. In addition, a new booster pump station will be constructed that includes more energy efficient pumps and a back-up generator to allow operations during a power outage.
2019-3773	10580	41	Camaloch Association	Water Main Replacement	Island	818	\$1,876,472	\$1,895,237	0	AI=1.35, project does not qualify for principal forgiveness.	This project consists of replacing most of the old water mains within the distribution system. Approximately 16,000 feet of new water main is to be installed. <i>Note: Project submitted in 2018; eligible but not funded. Will be funded this year.</i>
2019-3748	43600	37	Mason County PUD No 1	Lake Arrowhead Mainline Replacement	Mason	326	\$205,517	\$205,517	\$205,517	AI=2.65, qualifies for 30% principal forgiveness. *	Lake Arrowhead water system has water loss in excess of 50%. This project will replace a portion of the leaking water mains.
2019-3459	90400	35	Town of Uniontown	Uniontown Water Works - Lead Joint Replacement - East Side	Whitman	324	\$1,051,000	\$1,061,510	0	AI=1.18, project does not qualify for principal forgiveness.	Uniontown has approximately 5,400 lineal feet of old steel water main with lead joints. This project will replace the old water main with new pipe that meets current standards.
TOTALS							\$21,483,483	\$21,621,386	\$5,776,940		

\*Additional subsidy awarded to meet 20% capitalization grant subsidy award amount plus additional \$660,000 from SFY 2020. All projects receiving subsidy will also receive reduced interest rate of 1.25 percent.

Appendix C: Year 24 Drinking Water System Repair and Consolidation (DWSRC) and EPA Small and Disadvantaged Communities (SDC) Funded Applicants\*

Health Application	Water System ID	Score	Water System Name	Project	County	Popula-tion	DWSRC Grant Award	EPA SDC Grant Award	Project Description
2019-3732	04461	115	Basin City Water and Sewer District	BCE Consolidation and BCE Water Meter Installation	Franklin	51	\$285,000	\$0	This project involves the consolidation of the Group A–BCE water system into the Group A–Basin City Water-Sewer District (BCWSD) system and is a continuation of a project funded last year. The BCE well has a recorded nitrate level of 21.5 mg/L. As part of the consolidation, BCWSD will drill a new secondary well (funded last year) and install meters on all BCE service connections (project to be funded this year).The completion of this proposal, which involves 17 meters to be installed within the confines of the old BCE system, will complete metering in Basin City.
2019-3735	47001	113	Lewis County Water District #2	Evergreen Apartments Water System Consolidation	Lewis	54	\$375,000	\$81,500	This project will allow the Evergreen Apartments to be owned, managed, and served by Lewis County Water District 2 (LCWSD2). Evergreen Apartments water system's well exceeds the arsenic maximum contaminant level and is under a compliance order to address the high arsenic levels. This project includes an intertie to allow Evergreen Apartments to receive water from LCWD2 through an intertie and abandon its high arsenic well. The project also includes distribution system improvements and new water meters.
2019-3762	20200	112	Duck Lake Water Association	Johnson Creek and Duck Lake Consolidation	Okanogan	48	\$0	\$469,500	Johnson Creek Water Users Association is under a compliance order for exceeding the uranium and arsenic maximum contaminant levels. Johnson Creek drilled a new well in an attempt to find adequate drinking water, but the new well had high levels of uranium. This project will allow Johnson Creek to connect to Duck Lake through a new intertie (approximately 14,000 feet long) to obtain safe and reliable drinking water. Improvements also include a new booster pump station. At the end of the project, Johnson Creek and Duck Lake will become one water system.
2019-3747	06029	68	Terrace Heights	Treneer Water Systems Consolidation	Yakima	34	\$375,000	\$365,000	This project will allow the two Group B Treneer water systems with failing sources to be connected to Yakima County's Terrace Heights Water System. The Treneer water systems will abandon the failing well sources and receive reliable water from the Yakima County owned water system upon project completion.
2019-3767	06046	67	Sward 278	Sward 278 and Platt Consolidation	Lewis	15	\$182,050	\$0	This project will allow the Plat Group B water system to consolidate with the Sward water system, becoming one water system. Improvements include intertie, new storage tank, new well pump, controls, and booster pump station.
2019-3768	68790	65	Port of Allyn	Allyn Carey Consolidation	Mason	20	\$140,000	\$0	This project will allow the Allyn Carey Group B water system to consolidate with the Port of Allyn water system for a more resilient and reliable water system. The project includes an intertie between the two water systems.
Total							\$1,357,050	\$916,000	

\* Funding for consolidation and restructuring projects provided through a state appropriation for Drinking Water System Repairs and Consolidation, SHB 1102, Section 2068, with DOH receiving \$1.5 million in the appropriation. 3% of the appropriation is reserved for administrative costs associated with administering these funds and \$60,000 has been awarded to DWSRF Consolidation Feasibility Study Grant projects. EPA Small and Disadvantaged Communities (SDC) Grant also being used to support consolidation projects.

**Appendix D: Year 24 Ineligible, Unfunded or Withdrawn DWSRF Loan Applicants**

Health Application	Water System ID	Score	Water System Name	Project	County	Population	Request	Project Description
2019-3758	13645	N/A	Mason County PUD No 1	Canal View System Improvements	Mason	20	\$133,731	System ineligible as a Group B water system; will not become Group A at the end of the project due to a consolidation.
2019-3749	49650	N/A	City of Mabton	Drill and Equip Well No. 7	Yakima	2,290	\$1,814,820	Water System Plan expired; ineligible for DWSRF funding.
2019-3733	17000	86	Pend Oreille Public Utility District	Cusick Water Treatment Plant Acquisition & Rehabilitation	Pend Oreille	646	\$475,500	The Town of Cusick is currently under a compliance order to upgrade its surface water treatment plant. This project is a continuation of surface water treatment plant upgrades funded in a previous project. Improvements include rehabilitating or replacing the existing clarifiers and filters. This project also includes transfer of treatment plant ownership from Cusick to Pend Oreille PUD. Application withdrawn by Pend Oreille PUD.
2019-3757	91845	39	Mason County PUD No 1	View Ridge Heights Mainline Replacement	Mason	263	\$22,724	This project will allow View Ridge water system to replace leaking water lines with new pipe and relocate the pipe away from trees. The new location will reduce the potential of roots damaging the pipe and allow for better access for maintenance and repairs. Application withdrawn by Mason PUD.
2019-3756	02857	39	Mason County PUD No 1	Arcadia Estates Mainline Replacement	Mason	108	\$37,191	The Arcadia water system has excessive water loss, as high as 86%. This project will replace a portion of the old, leaking water mains and reduce water loss. Application withdrawn by Mason PUD.
2019-3770	95300	55	City of Westport	Westport Deep Wells Project	Grays Harbor	4,300	\$2,918,204	Westport needs to drill a new well. Westport was unfunded in 2018 and was offered a DWSRF loan in 2019; Westport declined DWSRF loan offer and accepted Rural Development funding for the project.
2019-3772	10748	41	Camano Vista Water District	Water Main Replacement	Island	469	\$85,523	This project consists of looping a portion of the system and replacement of approximately 610 feet of old water main. This project was unfunded in 2018; Camano Vista WD declined DWSRF offer.
Total							\$5,531,466	