

Table 2

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

6. Amounts transferred between the DWSRF and the CWSRF

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

Washington does not intend to transfer funds between these programs during Year-23 of the DWSRF Program.

7. Criteria and Method for Distributing Capital Loan Funds

Money in the DWSRF Project Fund can be used for:

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

7A. Construction Loans

Loan applications

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

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

Washington's eligibility and threshold review

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

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

Washington's prioritization process

After assigning a preliminary score based on information in the applications and an initial review of each system's compliance status, our DWSRF and regional staff met January 22, 2019, to assign final scores. Staff reviewed compliance files from regional offices and discussed the merits of each project. Regional office files contain considerable background information on each system's operational and compliance history, which was valuable in assessing the true public health significance of each proposal.

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

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

Ranking eligible applications

Using the criteria in Washington's fall 2018 DWSRF Guidelines to score eligible loan applications, we awarded "basic points" and "bonus points."

We awarded basic points by the:

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

We gave “bonus” points to project applicants that:

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

Water System Capacity Review

“Water system capacity” is an eligibility requirement for DWSRF loans.

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

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

1. The applicant must have a current, Health-approved Water System Plan (WSP) or Small Water System Management Program (SWSMP). The WSP must be less than 6 years old on November 30, 2018.
2. The applicant's current, Health-approved WSP or SWSMP must include the proposed project.
3. The water system must have a satisfactory operating permit status at application or on completion of the proposed project.
4. The system must be in compliance with any active enforcement actions (including departmental orders, penalties, bilateral compliance agreements, or federally issued administrative orders or stipulated penalties).
5. The board or council that oversees the water system must have all positions filled, meet regularly, and provide meetings minutes for review.
6. The water system must verify that it maintains operational and maintenance records.
7. The water system must have a properly certified operator.

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

Financial capacity

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

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

Readiness to proceed

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

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

7B. Preconstruction Loans

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

7C. Emergency Loan Program

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

Our primary goal is to respond to and assist public water systems in recovering from public health threats. The emergency loan program ensures we are ready and able to award loans to water systems experiencing an emergency, so they can restore water service as quickly as possible. The emergency loan program will help water systems that lose critical drinking water services or facilities during an emergency and demonstrate substantial financial need according to DWSRF criteria.

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

When we determine an emergency exists and emergency funding is available, we may award an emergency loan to an eligible public water system. These funds will be available for construction, reconstruction, replacement, rehabilitation, temporary repair, or improvement necessary to continue or restore operation of a public water system that is in violation of health and safety standards due to an emergency as defined above. To date, we have not executed an emergency loan; but we want to continue to make this loan available if needed during an emergency.

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