

Washington State Drinking Water State Revolving Fund

DRAFT Intended Use Plan

For Drinking Water State Revolving Fund (DWSRF) FFY2024

Bipartisan Infrastructure Law (BIL) Supplemental and Emerging Contaminant FFY2023

Federal Capitalization Grants

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On the cover: Nob Hill Water Association, Minnesota reservoir construction project.



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Contents

| | |
|---|----|
| Federal Capitalization Grant | 1 |
| Intended Use Plan | 1 |
| 1. Introduction | 1 |
| Washington’s Intended Use Plan | 1 |
| 2. Congressional Priorities | 2 |
| 3. Washington’s Program Goals | 5 |
| Short-Term Goals | 5 |
| Long-Term Goals | 6 |
| Environmental Results Goals | 7 |
| 4. Set-Aside Activities | 8 |
| Program Administration Set-Aside | 9 |
| State Program Management Set-Aside | 9 |
| Small System Technical Assistance Set-Aside | 9 |
| Local Assistance and Other State Programs Set-Aside | 10 |
| Capacity Development and Water System Sustainability | 10 |
| Source Water Protection | 11 |
| 5. Capital Loan Funding | 12 |
| 6. Amounts Transferred Between DWSRF and CWSRF | 13 |
| 7. Criteria and Method for Distributing Capital Loan Funds | 13 |
| 7A. Construction Loans | 14 |
| Loan Applications | 14 |
| Washington’s Eligibility and Threshold Review | 14 |
| Washington’s Prioritization Process | 14 |
| Ranking Eligible Applications | 15 |
| Water System Capacity Review | 15 |
| Financial Capacity | 16 |
| Readiness to Proceed | 16 |
| 7B. Planning and Engineering Loans | 16 |
| 7C. Emergency Loan Program | 17 |
| 8. Construction Loan Process and List | 17 |
| Bypass Process | 17 |
| Amending the Project Priority List | 18 |
| Loan Fees | 18 |
| Affordability Index | 18 |
| Restructuring and Consolidation Projects | 19 |
| Environmental and Cultural Review Process | 20 |
| Prioritized Project List | 20 |
| Federal Financial Accountability and Transparency Act reporting | 20 |
| 9. Public Participation | 20 |

10. Assurances and Certifications 21
 State Law 21
 DWSRF Fund Structure 21
 Appendices25
Appendix A: Washington 2022 DWSRF Construction Loan Guidelines25
Appendix B: Funded DWSRF 2022 Construction Loan Applicants List—Project Priority List.....26
Appendix C: Funded BIL Emerging Contaminants 2022 Construction Loan Applicants List—Project Priority
List 28
Appendix D: Withdrawn or Declined or Ineligible DWSRF 2022 Construction Loan Applicants29
Appendix E: Funded DWSRF 2022 Preconstruction Loan Applicants List30

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 SDWA 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.

President Biden signed the Bipartisan Infrastructure Law (BIL) on November 15, 2021. The law invests an additional \$35 million in support of safe drinking water over the next five years. The law includes four distinct pots of funding:

- ◆ Supplemental funding for infrastructure improvements through DWSRF.
- ◆ Lead service line identification and replacement through DWSRF.
- ◆ Addressing emerging contaminants through DWSRF.
- ◆ Addressing emerging contaminants through the Small and Disadvantaged Communities Grant.

The DWSRF Program finances drinking water projects and activities to protect public health and achieve or maintain compliance with the SDWA. Each state must provide matching funds of 20 percent of the federal base capitalization grant and 10 percent in years one and two, and 20 percent in following years for the supplemental grant.

EPA awards federal DWSRF capitalization grants to states for:

- ◆ **Set-Asides.** Funds for DWSRF Program administration and non-construction 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 Intended Use Plan

In federal fiscal year 2023 (FFY 2023), Congress appropriated \$1,126,101,000 to EPA for the national DWSRF Program but subtracted from those funds \$609,255,899 for Congressionally Directed Spending Projects. In federal fiscal year 2022 (FFY2022), Congress appropriated \$1,902,000,000 for the BIL DWSRF general supplemental and \$800,000,000 for the BIL Emerging Contaminants grants. EPA then appropriated funds to the states based on their statewide needs assessment. Washington will receive approximately \$11,307,000 from the base capitalization grant, \$40,196,000 from the BIL supplemental grant and \$16,878,000 from the BIL emerging contaminant grant from EPA to fund capital improvement projects that were ranked and placed on the priority list for state fiscal year (SFY) 2024 (July 1, 2023– June 30, 2024) and set-aside projects. Washington uses 69 percent of the base capitalization grant, 74

percent of the supplemental grant and 100 percent of the emerging contaminant grant for new construction loans and designates the remaining 31 percent of the capitalization grant and 26 percent of the supplemental grant for non-construction set-aside projects, such as special studies and technical assistance.

Excluding these grant's set-asides, but including the 20 percent and 10 percent state contribution, the state has about \$150 million to award for new construction projects based on the updated predictive model.

As of February 28, 2023, Washington has a cash balance of approximately \$3.9 million (generated from loan origination fees) for ongoing administration of the revolving fund loan program. The loan origination fee remains at 1.0 percent for the construction cycle. The standard interest rate is 2.25 percent and reduced to 1.75 percent for those projects receiving subsidy.

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 DWSRF 2022 Construction Loan cycle.

2. Congressional Priorities

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

Projects that address the most serious public health risk. 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 compliance 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. To calculate affordability, we use the Affordability Index, a formula that considers an applicant's water rates and median household income. All other noncommunity systems were deemed subsidy-ineligible. Noncommunity water systems do not supply water to households; and therefore, they cannot meet the federal requirement to base affordability on a "per household basis."

Provide at least 12 percent of the DWSRF Capitalization Grant and 49 percent of the BIL DWSRF Supplemental Grant as loan subsidy to eligible recipients. We gave systems serving disadvantaged communities approximately \$44.3 million in subsidies since 2010 (Table 3, Page 4).

Provide 100 percent of the BIL DWSRF Emerging Contaminant Grant as loan subsidy with at least 25 percent going to small water systems or disadvantaged communities. We provide the entire

\$16,787,000 emerging contaminant capitalization grant as subsidy to those communities with qualifying projects. Twenty-five percent of the funds were awarded to small or disadvantaged communities for treatment of emerging contaminants.

For the 2022 funding cycle (SFY 2024), the basic loan rate (as advertised in the 2022 DWSRF Construction Loan Guidelines) is a twenty-year fixed-rate loan with 2.25 percent interest. However, those projects meeting the disadvantaged criteria or receiving subsidy (awarded as principal forgiveness) are assigned a lower interest rate of 1.75 percent. DWSRF program staff decided to increase the interest rate by 0.50 percent to address current inflation and maintain a sustainable program.

To meet Health’s subsidization goals to maximize subsidy for all capitalization grants, we established an emergency rule to allow up to 100 percent subsidy for water systems that meet the disadvantaged community definition. Water systems received 84 to 85 percent subsidy, with the highest scoring applicants being awarded 85 percent subsidy. Health originally misinterpreted Justice40 goals and targeted 40 percent subsidization from our base grant. We already notified recipients of their subsidy award prior to identifying the maximum subsidy for this award for the base grant was 35 percent. We awarded \$4,462,841 (39 percent) as subsidy from the base grant and \$19,696,040 (49 percent) as subsidy from the BIL supplemental grant.

Final subsidy awards are also listed by project in Appendix B.

The following projects will receive subsidy from the DWSRF Base and BIL Supplemental Grants.

Table 1

| Project Applicant | Project Name | Funded Amount | Subsidy Award |
|--------------------------------|--|----------------------|------------------------|
| Beverly Water District | Well Project | \$977,880 | \$848,198 ¹ |
| Mason County PUD No. 1 | Bay East Manganese Treatment & Consolidation | \$821,729 | \$580,298 ² |
| Beverly Water District | New Reservoir Project | \$1,132,305 | \$962,464 |
| Boistfort Valley Water | Curtis Hill Reservoir Replacement Project | \$1,949,300 | \$1,637,412 |
| Wahkiakum County PUD #1 | SR 4 – Grays River – 4,000-foot mainline replacement | \$989,800 | \$831,432 |
| City of Sultan | Water Treatment Plant Improvements | \$11,041,391 | \$9,385,182 |
| City of Ephrata | Reservoir 6 and Pressure Zone 5 Improvements | \$11,663,480 | \$9,913,958 |
| Total | | | \$24,158,881 |

¹\$451,298 from the DWSRF base grant and \$396,900 from the BIL supplemental grant.

²Additional \$139,100 of loan subsidy was provided from the BIL DWSRF emerging contaminant grant.

The following projects will receive subsidy from the BIL DWSRF Emerging Contaminants Grants.

Table 2

| Project Applicant | Project Name | Funded Amount | Subsidy Award |
|------------------------|--|---------------|------------------------|
| City of Cheney | Well #5 PFAS Mitigation Project | \$4,080,000 | \$4,080,400 |
| City of Vancouver | WS14 PFAS Treatment System | \$12,658,500 | \$12,685,500 |
| Mason County PUD No. 1 | Bay East Manganese Treatment & Consolidation | \$821,729 | \$139,100 ¹ |
| Total | | | \$16,878,000 |

¹Additional funding was provided for this project with the DWSRF base capitalization grant. An additional \$580,298 was provided in loan subsidy for this disadvantaged community.

Table 3

| Summary of Washington Subsidy Awards | | | | | | | |
|--------------------------------------|---------------------------|---------------------|-----------------------|-------------------------|---------------------|--------------------------|---|
| SRF/ SFY Year | Cap Grant Amount | Subsidy Required | Subsidy Awarded | % Subsidy Awarded | Subsidy Expended | % Subsidy Expended | Notes |
| 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% | \$4,060,444 | 21% | Subsidy Met |
| 20/ 2017 | \$18,233,000 | 20-50% | \$3,764,308 | 21% | \$3,764,308 | 21% | Subsidy Met |
| 21/ 2018 | \$18,233,000 | 20-50% | \$4,446,769 | 24% | \$4,446,769 | 24% | Subsidy Met |
| 22/ 2019 | \$24,815,000 | 20-50% | \$5,878,205 | 24% | \$1,980,844 | 34% | 3 Projects Open, Still Drawing |
| 23/ 2020 | \$24,583,000 | 26-56% | \$6,451,900 | 26% | \$602,580 | 9% | 4 Contracts Extended NTP Dates |
| 24/ 2021 | \$24,598,000 | 20-50% | \$7,004,400 | 29% | N/A | N/A | Contracts Executed NTP Dates Summer, 2023 |
| 25/ 2022 | \$24,576,000 | 20-50% | \$5,593,526 | 23% | N/A | N/A | Contracts Executed |
| 26/ 2023 | \$16,576,000 | 26-49% | \$6,160,371 | 50% | N/A | N/A | Contracts Executed |
| 27/ 2024 | \$51,503,000 ¹ | 12-49% | \$24,218,840 | 49% ² | N/A | N/A | Contracts Need to Be Executed |
| Total | \$344,589,000 | | \$100,968,6356 | | \$46,565,959 | | |

¹Includes both the DWSRF base and the BIL supplemental capitalization grants.

²Awarded 39% subsidy from the DWSRF base and 49% from the BIL supplemental capitalization grants.

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.
 - Develop an in-house predictive model to ensure a healthy revolving fund balance.
 - Adjust interest rates to address long-term inflation and provide for fund sustainability.
- ◆ 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 planning and engineering 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.
 - Develop technical assistance contract to provide engineering and planning services directly to small and disadvantaged communities.
- ◆ Ensure that at least 30 percent of the base grant, 49 percent of the BIL supplemental grant and 25 percent of the emerging contaminants grant funds provide financial assistance to disadvantaged communities.
 - 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.
 - Coordinate with federal and state technical assistance providers to expand support and ensure funding eligibility for disadvantaged communities, which aligns with Healthy Environment for All (HEAL) Act and Justice40 initiatives.
 - Develop an internal toolbox for staff to offer resources and expertise to disadvantaged communities.
 - Develop in-person and online training series on how to develop a small water system management program.

- Develop a “Show Me the Money” campaign to educate underserved communities about the DWSRF loan program and technical assistance available to support the community's infrastructure needs.
- Provide financial and technical assistance to help public water systems increase technical, financial, and managerial capacity.
 - Continue to provide technical assistance and increase funding 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.
 - Develop additional technical assistance contracts to support operator training, engineering and planning services, and competitive bidding process.
 - Offer asset management training.
 - Continue to collaborate with other funding partners on small system training on infrastructure funding.
- Review and implement process improvement efficiencies.
 - 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. Also develop the ability to conduct remote construction site visits.
 - 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.
 - Redefine the state’s disadvantaged community definition.
 - Continue preparation and planning for BIL funding.
- Continue to promote asset management.
 - Bonus points are awarded for DWSRF applicants that have attended asset management training, have an asset inventory, and have assigned criticality numbers to assets.
 - Offer DWSRF funding recipients funding to develop an asset management program. 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 with the ability to improve their asset management program. Up to \$40,000 of additional funding will be awarded per jurisdiction for asset management efforts.

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. A solid plan will protect the financial future of the DWSRF program using all relevant operating assumptions for the program.
 - Expand loan availability above capitalization grants to spend down repayment account to target fund balance.
- Acknowledge and address household affordability constraints.

Continue to evaluate and address household affordability and how to capture disadvantaged communities within the service area of a public water system that does not meet our current affordability criteria.

- ◆ Use DWSRF funds to ensure water system resiliency against climate change and promote energy-efficient infrastructure.
 - Award bonus points for projects identified in the water system plan as climate readiness projects that protect the water system from extreme weather events.
 - Update planning guidebook to include requirements for climate resiliency.
- ◆ 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 increase use of electronic payments.
 - Educate water systems about the DWSRF Construction Loan Program before each loan cycle and develop an educational campaign.
 - 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.
 - Continue to offer Planning and Engineering Loans and grants year-round to allow systems to better prepare for infrastructure improvements.
- ◆ Continue offering Consolidation Feasibility Study Grant funding.
 - Expand the Consolidation Feasibility Study Grant funding program. In the 2022 Consolidation Feasibility Study Grant cycle, we received seventeen applications and funded nine applications. We funded: two projects for Whatcom County PUD #1, City of Richland, Stevens PUD, Deer Creek Water Association, North Spokane Irrigation District #8, PUD #1 of Jefferson County, Sun Vista/Sunlight Beach Homeowners Association, and Consolidated Irrigation District No. 14. Our stakeholders found great value in these small grants (up to \$50,000 per project), which allowed the study of potential transfer of ownership and consolidation projects to address compliance or capacity issues with small, struggling water systems. This funding program uses our loan origination fee fund. We plan to offer these grants again in 2023.
 - Evaluate using set asides to offer additional consolidation grants to support connect fee only projects.

Environmental Results Goals

Washington's DWSRF project loan funds and set-aside work plans support EPA's strategic planning Goal 5, "Ensuring Clean and Safe Water for All Communities" and strategic Objective 5.1, "Ensuring Safe Drinking Water and Reliable Infrastructure" by protecting public health from the risk of exposure to regulated and emerging contaminants in drinking and source waters by improving the reliability, accessibility, and resilience of the nations' water infrastructure to reduce impacts of climate change, structural deterioration, and cyber threats. 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 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 28 DWSRF-eligible projects from our fall 2022 loan cycle with 69 percent of the base capitalization grant funding, 74 percent of the BIL

supplemental capitalization grant, 100 percent BIL emerging contaminants grant with remaining funds coming from our loan repayment account, for a total award of about \$115.06 million (see Appendix B). Eight of the funded projects address compliance issues and the remaining funded projects provide system resiliency or replace aging infrastructure.

- ◆ 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, the pace was 98 percent for the DWSRF in 2022 (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 six state fiscal years.

Table 4

| Loans as a Percentage of Funds Available for Loans (Funds Utilization Rate) | | | |
|--|-------------------|------------------|-------------|
| SFY | Washington | Region 10 | U.S. |
| 2017 | 134% | 111% | 96% |
| 2018 | 124% | 109% | 96% |
| 2019 | 118% | 106% | 95% |
| 2020 | 112% | 103% | 96% |
| 2021 | 107% | 101% | 96% |
| 2022 | 112% | 102% | 98% |

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 non-construction activities that accomplish the same purposes. Funds for these non-construction 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).
- ◆ 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 strives to fully spend each set-aside within a two-year period. If there is a time when the state cannot spend down an approved set-aside work plan within two years, as we have in the past, we will amend work plans, ask for additional time to spend, or 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 2024. Washington intends to use 31 percent of its FFY23 base capitalization grant for current and future set-aside activities and 26 percent of the FFY22 BIL supplemental capitalization grant. We will begin using program administration set-aside funds in SFY 2024. Any remaining set-aside funds will be used in SFY 2025. 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 5, sub-objective 5.1.

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.

Washington will use 4 percent of the capitalization grant for program administration and to fund several contracts including:

- ◆ External financial audit of the program.
- ◆ Loan tracking and invoicing software.
- ◆ Third-party technical assistance providers.

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 systems 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, financial, and technical assistance, which helps to ensure systems meet Public Notification, Consumer Confidence Report, and various water quality monitoring requirements.
- ◆ Support digitalization of paper files to support mobile work force.

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 systems with planning and engineering needs to support eligibility for DWSRF funding.

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 10 percent of this set-aside from both the base and supplemental grant this year for activities related to system capacity development and 5 percent of this set-aside from the base grant for source water protection activities.

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 continue to 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.

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 for technical, managerial, and financial capacity on our website and other media outlets.
- ◆ We will look to reenergize our efforts to conduct sanitary surveys, including virtual surveys, that allow us to follow safety measures to minimize the spread of COVID-19.
- ◆ Providing specific technical assistance 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 offers additional funding, up to \$40,000, to loan recipients to develop the asset management program.

- ◆ Increasing our emphasis on workforce development as we move closer to 2028 when 50 percent of our 4,000 certified operators have stated they will be eligible to retire. We will look to partner with our technical assistance providers to support the training of new operators to reduce the impacts of a depleted workforce.
- ◆ Provide additional technical assistance for water systems.
- ◆ Provide additional funding for consolidation grant program.

Source Water Protection

Washington will continue to reserve 5 percent of the Local Assistance and Other State Programs set-aside from the base capitalization grant to work with systems to improve their source water protection programs and achieve implementation of important wellhead and watershed protection projects. We are currently growing our program to meet the changing needs of water systems in Washington to address emerging contaminants, declining aquifers, and other impacts of climate changes. 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 internal and external source water protection applications; and providing source water protection data, information, mapping, analysis, and GIS support.
- ◆ Providing up-front technical assistance to local governments as they develop long-range plans and land-use regulations to identify modifications aimed at improving 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 that safeguard the quantity and quality of their source water.
- ◆ Coordinating and collaborating with other agencies on plans or projects to improve water quality of all sources of drinking water and development of regulations that intersect with drinking water interests.
- ◆ Reviewing and commenting on environmental processes associated with development projects statewide, where overlain by wellhead protection areas.
- ◆ Reviewing and commenting on water quality and quantity plans and regulations at all levels of government that could affect 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. Coordinate sampling or modeling to evaluate potential risks of these contaminants.

- ◆ Providing training across the state for water system operators and owners, local planners, and decision makers to increase knowledge about source water protection, regulatory framework, emerging contaminants, and watershed health.
- ◆ Contracting with hydrogeologists to model time of travel for Group A water sources to move away from fixed radius wellhead protection areas.
- ◆ Developing a watershed control program guidebook for surface water drinking water sources.
- ◆ Developing guidance for land acquisition and conservation easements in surface water sources' watersheds and evaluate developing a watershed purchase loan program for source water protection.

5. Capital Loan Funding

In November 2022, we received, reviewed, and ranked 48 construction loan applications with a total request of over \$175 million. Twenty-five applications were withdrawn or deemed ineligible for funding. Two of the withdrawn projects were funded by Congressionally Directed Spending grants. Health funded all remaining projects on our Prioritized Project List (PPL) totaling approximately \$115.06 million dollars. Eligible entities for DWSRF Construction Loan funding are:

- ◆ Community water systems, including publicly and privately owned systems. For-profit community water systems are eligible for a construction loan but are not eligible for subsidy.
- ◆ Not-for-profit noncommunity water systems.

Appendix B shows Washington's recommended 2022 Fall DWSRF Draft PPL for DWSRF funding. We will execute loan contracts for these projects after June 1, 2023.

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

- ◆ **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.
- ◆ **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).
- ◆ **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 steel products, we decided to reserve \$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 \$500,000. We will award additional funding at 1.75 percent interest and 1.0 percent loan origination fee.
- ◆ Scope of work cannot be modified.
- ◆ Bid tabs must be provided to document construction costs.
- ◆ Loan holders must provide an explanation for increased costs.

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

Table 5

| Washington State Drinking Water State Revolving Fund Financial Status and Intended Uses of Funds Federal Capitalization Grants | | |
|---|----------------------------|--------------------------|
| Category | Available Funds | |
| | Application Year 27 | Intended Use (\$) |
| Total Available | | |
| Federal Capitalization Base Grant FFY23 | \$11,307,000 | \$11,307,000 |
| 20% State Match | \$2,261,400 | \$2,261,400 |
| BIL Supplemental Capitalization Grant FFY22 | \$40,196,000 | \$40,196,000 |
| 10% State Match | \$4,019,600 | \$4,019,600 |
| BIL Emerging Contaminants Grant | \$16,878,000 | \$16,878,000 |
| Total | \$74,662,000 | \$74,662,000 |
| Base Grant Set-Asides: | | |
| Program Administration (4%) | \$452,280 | \$452,280 |
| State Program Management (10%) | \$1,130,700 | \$1,130,700 |
| Small System Technical Assistance (2%) | \$226,140 | \$226,140 |
| Local Assistance & Other State Programs (15%) | \$1,696,050 | \$1,695,050 |
| BIL Supplemental Grant Set-Asides: | | |
| Program Administration (4%) | \$1,607,840 | \$1,607,840 |
| State Program Management (10%) | \$4,019,600 | \$4,019,600 |
| Small System Technical Assistance (2%) | \$803,920 | \$803,920 |
| Local Assistance & Other State Programs (10%) | \$4,019,600 | \$4,019,600 |
| Total Set-Asides | \$13,956,130 | \$13,956,130 |
| Project Funds Available from Grants + Match | \$60,705,870 | \$60,705,870 |
| Total Available for New Project Loans | \$60,705,870 | \$60,705,870 |
| Total Project Funds and Set-Aside Funds | \$74,662,000 | \$74,662,000 |

6. Amounts Transferred Between DWSRF and 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 state fiscal year 2024 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 \$150 million.
 - Construction over-run costs. We allocated \$5 million.

- Emergency loans. We allocated \$1 million.
- Planning and Engineering Loans. We allocated \$3 million.
- Reimbursements for executed construction loan activities.

7A. Construction Loans

Loan Applications

We accepted applications for the DWSRF Loan Program from October 1 to November 30, 2022. We received 48 applications requesting about \$175 million.

DWSRF staff provided information and technical assistance on the application process at multiple professional conferences and DWSRF-sponsored webinars. We notified stakeholders on the availability of the construction loan through e-mails and updates to the DWSRF webpage. All information related to the 2022 DWSRF Construction Loan cycle was posted to the DWSRF webpage.

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.

Nine applicants withdrew twelve project applications. Some withdrew because they did not receive subsidy, while others were not ready to proceed. We determined that eight projects were ineligible. Two projects were withdrawn as they received Congressional Directed Spending grant funding. See withdrawn or declined or ineligible projects in Appendix C.

Washington's Prioritization Process

After assigning a preliminary score based on information in the applications and an initial review of each system's compliance status, our DWSRF and regional staff met December 22, 2022, to discuss projects and scores, we assigned final scores after this meeting. 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 noted in the [2022 DWSRF Construction Loan Guidelines](#), water main replacement projects that coincide with other infrastructure improvement projects were eligible for automatic funding until the available \$3 million allocated for these projects was exhausted. We did not receive any project that met these conditions.

As previously described, we assessed each project for its ability to receive principal forgiveness or subsidy. We awarded more subsidy than required on projects, as shown in Appendix B.

We will consider comments received during the public review when finalizing this IUP and the PPL.

Ranking Eligible Applications

Using the criteria in Washington’s fall 2022 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.
- ◆ Affordability.
- ◆ Project’s Readiness to Proceed.

We gave “bonus” points to project applicants that:

- ◆ Involved restructuring or consolidation benefits.
- ◆ Had an asset inventory, attended an asset management training, or assigned criticality ratings to assets.
- ◆ Had a project that would eliminate an unresolved compliance issue.
- ◆ Had a water main project that coincided with other infrastructure projects.
- ◆ Addressed distribution leakage above 10 percent, reduced pumping or treatment costs, or resulted in reduced energy consumption.
- ◆ Had at least 50 percent of the project area ranked 9 or higher on the Environmental Health Disparities V2.0 or the Social Economic Factors using Health’s Washington Tracking Network (WTN) Environmental Health Disparities Map.

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:

- ◆ The applicant must have a current, Health-approved Water System Plan (WSP) or Small Water System Management Program (SWSMP). The WSP approval must not expire on or before the close of the funding cycle (November 30, 2022, for the current funding cycle).
- ◆ The applicant’s current, Health-approved WSP or SWSMP must include the proposed project.
- ◆ The water system must have a satisfactory operating permit status at application or on completion of the proposed project.
- ◆ 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).
- ◆ Demonstrate the proposed project is ready to proceed.
- ◆ Provide all information as requested in the application.
- ◆ The applicant must not have any outstanding audit findings related to technical managerial, or financial capacity.

- ◆ The applicant must show satisfactory performance and timeliness on currently held and open DWSRF funded projects.

Projects ranking high enough to be considered for funding, yet not currently meeting capacity requirements in dot points 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?
- ◆ Are construction and/or bid documents complete?
- ◆ Have project permits been obtained or are they in process?
- ◆ Does the project complete a previous construction loan project, emergency loan project, preconstruction loan project, or consolidation grant project funded by the DWSRF program.
- ◆ Is land acquisition or easements part of the project? If so, have rights of way and easements been secured?
- ◆ Is the environmental or cultural review complete??

7B. Planning and Engineering Loans

Starting in January 2021, the DWSRF Preconstruction Loan is available on a year-round basis. The loan program was renamed the Planning and Engineering Loan in January 2023. Community water systems and not-for-profit noncommunity water systems are eligible for a Preconstruction Loan. This program is intended to assist our water systems with preparing for a construction project. The general terms of the Preconstruction Loan are:

- ◆ Approximately \$3 million available each year.
- ◆ Maximum award per jurisdiction is \$500,000.
- ◆ Funding is awarded on a first-come basis until funding is exhausted.
- ◆ Zero percent annual interest rate. No subsidy available.
- ◆ Two (2) percent loan origination fee (non-refundable).
- ◆ Two-year time of performance.
- ◆ Ten-year repayment period.

We will also 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. Bonus points are awarded on a DWSRF Construction Loan application to entities that received a preconstruction loan from any funding program. Four preconstruction loans were awarded this year. A list of loans executed this year is included in Appendix E.

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. Emergency loans are available to not-for-profit community and non-community water systems serving fewer than 10,000 people. Water systems serving less than 10,000 people under a court ordered receivership may also be eligible for this funding. During the period of this IUP, Washington intends to make \$1 million available to eligible water systems. **We have not executed any emergency loans since 2019.** In the event of a large-scale disaster, DWSRF will modify the availability of emergency loans and funding amount.

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.

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. These funds will be available for construction, reconstruction, replacement, rehabilitation, temporary repair, rental of equipment, 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.

Applicants will submit a completed emergency application package to Health. All application material is available online. 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 the Department of Ecology’s emergency loan program. The loan terms are:

- ◆ Ten-year repayment period.
- ◆ Project must be completed within two years.
- ◆ Maximum amount of \$500,000 per entity.
- ◆ Zero percent annual interest rate.
- ◆ One-point-five (1.5) percent loan origination fee.

8. 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 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. If an approved project withdrew from the list, we move the highest-ranking unfunded project to the project 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 January 1, 2023, the cash balance of the loan fee account (Fund 05R) was approximately \$3.9 million. By statute, interest or other investment income accrued in this account remains in this account. We may withdraw funds from this account 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 modified existing rules to allow the loan fees to be used for consolidation feasibility study grants and other eligible set-aside activities.

Affordability Index

The Affordability Index is one criterion 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 6

| Loan Terms for 2022 Construction Loan Applications | | | |
|---|---|------------------------|--|
| Income Level of Households | Interest Rate and Forgiveness | Loan Fee | Loan & Fee Repayment Period |
| Water system is not economically disadvantaged | 2.25% interest on loan | 1.0% at loan execution | 20 years or life of the project, whichever is less |
| Water system with an Affordability Index (AI) between 1.5% and 2.0% | 1.75% interest on loan | 1.0% at loan execution | 20 years or life of the project, whichever is less |
| Water system with an AI between 2.01% and 3.5% | 1.75% interest on loan, 84% principal forgiveness | No loan fee | 24 years or life of the project, whichever is less |
| Water system with an AI of 3.51% or greater | 1.75% interest on loan, 85% principal forgiveness | No loan fee | 24 years or life of the project, whichever is less |

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.

Consolidation projects must demonstrate that the system to be consolidated meets the disadvantaged system criteria to receive subsidy. These loans fund activities such as:

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

Environmental and Cultural Review Process

All funded construction loan projects undergo environmental and cultural reviews.

The DWSRF Program 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 the DWSRF loan program. The list includes 27 eligible projects totaling \$115,060,2848.

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

See Appendix C for loan applications not funded because the applicant withdrew or declined the loan offer.

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

Table 7

| Federal Fiscal Year 2023 State Revolving Fund Year Base Capitalization Grant Federal Funding Accountability and Transparency Act Reporting List | | | | |
|--|------------------|---------------------|---------------|-------------------------------|
| Total Federal Capitalization Grants | | | | \$11,307,000 |
| Projects and Set-Asides Used for FFATA Reporting | | | | \$11,307,000 |
| Loan # | Recipient | Project | Award | FFATA Reporting Amount |
| 2022-4133 | City of Ephrata | Reservoir 6 Upgrade | \$11,548,000 | \$11,548,000. |
| Total Projects to Report | | | \$11,548,000, | \$11,548,000. |
| Set-Asides Reserved | | | | \$3,505,170 |

9. Public Participation

To advertise the availability of the 2022 fall Draft DWSRF Funding List, we will e-mail 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 will be posted on our [DWSRF webpage](#) and available for public comment for 30 days.

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.

1. 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.

2. 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 for the base capitalization grant and 10 percent match for the BIL supplemental capitalization grant.

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

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.

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 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

The Office of the Washington State Auditor or an external Certified Public Accountant 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 United States 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 crosscutters 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 crosscutter requirements. Required documentation will be provided for each of these requirements. To the extent necessary, crosscutter 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:

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

Appendices

Appendix A: Washington 2022 DWSRF Construction Loan Guidelines

[2022 DWSRF Construction Loan Guideline and Application 331-196 \(PDF\)](#).

Appendix B: Funded DWSRF 2022 Construction Loan Applicants List—Project Priority List

| Health Application | Water System ID | Final Score | Applicant Name | Project | County | Full Time Residential Population | Loan Request Amount | Loan Award Total | Subsidy Award | Comments | Project Description |
|--------------------|-----------------|-------------|--------------------------------|---|-----------|----------------------------------|---------------------|------------------|---------------|--|--|
| 2022-4069 | 06350 | 123 | Beverly Water District | Well Project | Grant | 120 | \$988,000 | \$997,880 | \$848,198 | | Drill and develop new well to replace existing Well 2 due to high nitrate. Connect new well to existing water system. Decommission existing Well 2, S02. |
| 2022-4093 | 81048 | 113 | Snoqualmie Pass Utility | Alpental Wells Water Treatment System | King | 516 | \$2,542,800 | \$2,550,048 | \$0 | | Design and install arsenic and manganese treatment for the Alpental wells. |
| 2022-4126 | 45550 | 107 | Lakewood Water District | Hipkins (I-3) Replacement Well due to PFAS | Pierce | 62,089 | \$4,064,800 | \$4,105,448 | \$0 | | Drill and develop a replacement well for Hipkins (I-3) well which has PFAS contamination. |
| 2022-4128 | 45550 | 107 | Lakewood Water District | Oakbrook (O-2) Replacement Well due to PFAS | Pierce | 62,089 | \$4,064,800 | \$4,105,448 | \$0 | | Drill and develop a replacement well for Oakbrook (O-2) well which has PFAS contamination. |
| 2022-4115 | 18100 | 96 | City of Davenport | Water Main Replacement | Lincoln | 1720 | \$1,142,900 | \$1,154,329 | \$0 | | Replace water mains and service lines. |
| 2022-4084 | 84770 | 79 | City of Sultan | WTP Improvements | Snohomish | 6200 | \$10,930,988 | \$11,041,391 | \$9,385,182 | | Install additional treatment trains at water treatment plant. |
| 2022-4103 | 98200 | 77 | City of Woodland | WTP Filters 2 & 3 Restoration and Media Replacement | Cowlitz | 6545 | \$1,294,787 | \$1,307,735 | \$0 | | Refurbish Filters 2 and 3 at the water treatment plant and replace filter media. |
| 2022-4117 | 04852 | 69 | Mason PUD 1 | Bay East Manganese Treatment | Mason | 95 | \$813,594 | \$821,729 | \$719,335 | Remainder fully funded by BIL EC Subsidy | Design and install manganese treatment at Bay East. |
| 2022-4073 | 83100 | 65 | City of Spokane | Spotted Rd BS2 | Spokane | 244,817 | \$6,600,000 | \$6,666,000 | \$0 | | Design and construct a new booster pump station on Spotted Road. |
| 2022-4129 | 60950 | 61 | North Perry Ave Water District | Gilberton 1 Well Manganese Treatment System | Kitsap | 19,795 | \$987,000 | \$996,870 | \$0 | | Design and install manganese treatment at Gilberton Well 1. |
| 2022-4011 | 97650 | 60 | City of Bainbridge Island | Reservoir 1 and 2 Seismic Upgrades | Kitsap | 7,748 | \$9,500,000 | \$9,595,000 | \$0 | | Design and construct a replacement reservoir for Reservoir 1 and make seismic upgrades to Reservoir 2. |
| 2022-4098 | 88150 | 58 | Three Lakes Water Association | 171st Ave SE AC Water Main Replacement | Snohomish | 2,170 | \$3,826,733 | \$3,865,000 | \$0 | | Replace asbestos concrete water mains. |
| 2022-4070 | 06350 | 53 | Beverly Water District | New Reservoir Project | Grant | 120 | \$1,121,100 | \$1,132,305 | \$962,464 | | Design and construct new reservoir. |
| 2022-4067 | 23650 | 52 | City of Ephrata | Reservoir 6 and Pressure Zone 5 Improvements | Grant | 8,620 | \$11,548,000 | \$11,663,480 | \$9,913,958 | | Upgrade Reservoir 6. |

| Health Application | Water System ID | Final Score | Applicant Name | Project | County | Full Time Residential Population | Loan Request Amount | Loan Award Total | Subsidy Award | Comments | Project Description |
|--------------------|-----------------|-------------|-------------------------------------|---|-----------|----------------------------------|----------------------|---------------------|---------------------|---|--|
| 2022-4089 | 07610 | 52 | Boistfort Valley Water | Curtis Hill Reservoir Replacement | Lewis | 2,289 | \$1,930,000 | \$1,949,300 | \$1,637,412 | | Design and construct replacement reservoir for Curtis Hill Reservoir. |
| 2022-4120 | 36711 | 51 | PUD 1 of Jefferson County | Ph 2 Coyle Water Main Replacement | Jefferson | 69 | \$1,135,686 | \$1,147,043 | \$0 | | Replace water mains in Coyle. |
| 2022-4135 | 47150 | 51 | Liberty Lake Sewer & Water District | Water Resources Development | Spokane | 10,645 | \$3,043,000 | \$3,073,430 | \$0 | | Drill and develop a new source for resiliency. |
| 2022-4091 | 95167 | 49 | Wahkiakum PUD 1 | SR4 Grays River 4000 Foot Mainline Replacement | Wahkiakum | 10,645 | \$980,000 | \$989,800 | \$831,432 | | Replace water mains on State Route 4 in Western Wahkiakum water system. |
| 2022-4109 | 28970 | 46 | City of Grandview | Water Storage Reservoir Improvements | Yakima | 11,010 | \$11,719,740 | \$9,000,000 | \$0 | Only accepting \$9,000,000 instead of the full loan request amount. | Upgrade existing storage tank. |
| 2022-4133 | 23850 | 46 | Erland Pont Water Co. | Water Main Replacement Between Wells and Reservoirs | Kitsap | 2,209 | \$1,500,000 | \$1,515,000 | \$0 | | Replace water mains between the wells and the reservoirs. |
| 2022-4059 | 98200 | 45 | City of Woodland | Water Treatment Plant Reservoir 4 | Cowlitz | 6,545 | \$4,986,000 | \$5,086,219 | \$0 | | Design and construct a replacement reservoir for Reservoir 4 at the water treatment plant. |
| 2022-4102 | 38900 | 43 | Water District 19 | D-3 SW 216th St SW Main Replacement and Monument Rd SW Connection | King | 3,723 | \$2,533,154 | \$2,558,486 | \$0 | | Replace water mains. |
| 2022-4113 | 81048 | 43 | Snoqualmie Pass Utility District | Reservoir, 12-inch Alpentel Water Main, and PRV | King | 516 | \$3,861,489 | \$3,900,104 | \$0 | | Design and construct a new reservoir and pressure reducing station and replace 12-inch water main. |
| 2022-4097 | 88300 | 40 | City of Tieton | Reservoir Rehabilitation and Improvements | Yakima | 1,254 | \$571,524 | \$577,239 | \$0 | | Rehabilitate and construct improvements to existing reservoir. |
| 2022-4123 | 07650 | 40 | City of Bonney Lake | 810 Lakeridge Reservoir | Pierce | 37,780 | \$9,280,000 | \$9,372,800 | \$0 | | Design and construct a new 810 Lakeridge Reservoir. |
| TOTALS | | | | | | | \$100,966,095 | \$98,182,284 | \$24,297,981 | | |

*All projects with subsidy receive reduced interest rate of 1.25 percent and have the loan origination fee waived.

**All project that were eligible for subsidy received greater than 50% to meet subsidy requirements for Washington's projected capitalization grant and a reduced interest rate of 1.25 percent.

Appendix C: Funded BIL Emerging Contaminants 2022 Construction Loan Applicants List—Project Priority List

| Health Application | Water System ID | Final Score | Applicant Name | Project | County | Full Time Residential Population | Loan Request Amount | Loan Total w/ 1.0 % loan fee (if applicable) | Subsidy Award | Comments | Project Description |
|--------------------|-----------------|-------------|-------------------|---|---------|----------------------------------|---------------------|--|---------------------|---|---|
| 2022-4099 | 12400 | 105 | City of Cheney | Well 5 PFAS Mitigation and Asset Management | Spokane | 10,700 | \$4,040,000 | \$40,400 | \$4,080,400 | | The city will try to identify source of PFAS in the aquifer, design and install treatment at Well 5, and complete their asset management. |
| 2022-4108 | 91200 | 104 | City of Vancouver | WS 14 PFAS Treatment | Clark | 257,083 | \$15,715,000 | \$157,150 | \$12,658,500 | Only accepted subsidy portion | Design and install PFAS treatment at Well Source 14 |
| 2022-4117 | 04852 | 69 | Mason PUD 1 | Bay East Manganese Treatment | Mason | 95 | \$813,594 | \$8,136 | \$139,100 | Remainder funded by DWSRF Construction Loan | Design and install manganese treatment at Bay East. |
| TOTALS | | | | | | | | | \$16,878,000 | | |

*All EC projects received 100 percent subsidy and have the loan origination fee waived.

Appendix D: Withdrawn or Declined or Ineligible DWSRF 2022 Construction Loan Applicants

| Health Application | Water System ID | Score | Water System Name | Project | County | Full Time Residential Population | Request | Project Description |
|--------------------|-----------------|-------|-----------------------------|---|-------------|----------------------------------|---------------------|--|
| 2022-4058 | 46441 | 0 | Lazy Acres | PFAS Treatment | Thurston | 267 | \$1,001,112 | Design and install PFAS treatment at both well sites. <i>This project was ineligible because the project was not identified in their most recent water system plan.</i> |
| 2022-4062 | 42650 | 0 | City of Kittitas | Reservoir No. 2 Improvements | Kittitas | 1,418 | \$3,200,000 | Design and install a 950,000-gallon welded steel reservoir for redundancy. <i>This project was withdrawn.</i> |
| 2022-4064 | 10600 | 56 | Camano Co-Op Water & Power | New Well – Brennick Site | Island | 958 | \$459,550 | Drill and develop new ground water well at Brennick Reservoir site. <i>This applicant was ineligible because they did not have water rights for the source.</i> |
| 2022-4065 | 17794 | 0 | Dana Passage | No Name | Thurston | 203 | \$0 | <i>This project was withdrawn before application was completed.</i> |
| 2022-4072 | 68790 | 63 | Port of Allyn | Allen Carey Consolidation | Mason | 3 | \$125,038 | Carry-over from Application 2019-3768. Consolidate the Allen & Carey Water System into the Port of Allyn. <i>The acquiring water system was deemed ineligible.</i> |
| 2022-4076 | 14050 | 0 | College Place Water Dept | Reservoir No. 4 | Walla Walla | 8,032 | \$8,150,003.10 | Design and construct 500,000-gallon elevated composite tank, Reservoir No. 4, and transmission main connect to Pressure Zone 1. <i>The applicant was ineligible due to an audit finding.</i> |
| 2022-4078 | 14050 | 0 | College Place Water Dept | Well No. 3 | Walla Walla | 8,032 | \$818,100 | Design and install sodium hypochlorite treatment and a standby generator. <i>The applicant was ineligible due to an audit finding.</i> |
| 2022-4079 | 14050 | 0 | College Place Water Dept | Well No. 7 | Walla Walla | 8,032 | \$818,100 | Design and construct Well 7. Construct new transmission main to proposed Reservoir 4 and connect to existing distribution system. <i>The applicant was ineligible due to an audit finding.</i> |
| 2022-4083 | 14050 | 0 | College Place Water Dept | 6 th Street | Walla Walla | 8,032 | \$4,040,000 | Replace water main on 6th Street. <i>The applicant was ineligible due to an audit finding.</i> |
| 2022-4095 | 98200 | 52 | City of Woodland | West Scott Asbestos-Cement Water Main Replacement | Cowlitz | 6,545 | \$687,204 | Replace existing asbestos concrete water mains. <i>Project was withdrawn.</i> |
| 2022-4100 | 20500 | 0 | City of Dupont Water System | No Name | Pierce | 9,503 | \$0 | <i>The project was withdrawn before the application was completed.</i> |
| 2022-4101 | 38900 | 0 | Water District 19 | No Name | King | 3,723 | \$0 | <i>The project was withdrawn before application was completed.</i> |
| 2022-4110 | 05783 | 45 | Quimper | Sparling Treatment Plant Upgrade Project | Jefferson | 8,155 | \$5,395,622 | Add an ATEC treatment train. Upgrade Well 3 pump. Decommission treatment at Well 2. Replace Well 2 building. <i>Project was withdrawn.</i> |
| 2022-4114 | 98200 | 45 | City of Woodland | Asbestos Cement Water Main Replacement Project | Cowlitz | 6,545 | \$11,777,315 | Replace existing asbestos concrete water mains. <i>Project was withdrawn.</i> |
| 2022-4116 | 14200 | 50 | Colville Water Department | Standby Generators | Stevens | 4,878 | \$521,059 | Install a standby generator. <i>Project was withdrawn.</i> |
| 2022-4118 | 43400 | 0 | Town of Lacrosse | Water Meter Replacement Project | Whitman | 297 | \$260,681 | Replace service meters. <i>Project not eligible for funding.</i> |
| 2022-4124 | 10600 | 22 | Camano Co-op Water & Power | Kamstrup system-wide meter replacement | Island | 958 | \$272,700 | Replace service meters. <i>Project not eligible for funding.</i> |
| 2022-4125 | 45550 | 107 | Lakewood Water District | Wells G-4 and K-3 | Pierce | 62,089 | \$5,854,465 | Replacement of Wells G-4 and K-3 due to PFAS contamination. <i>Project was withdrawn.</i> . Project funded by a Community Project Grant. |
| 2022-4127 | 45550 | 107 | Lakewood Water District | Oakbrook O-3 Replacement Well | Pierce | 62,089 | \$4,105,448 | Replacement of Oakbrook Well O-3 due to PFAS contamination. <i>Project was withdrawn.</i> Project funded by a Community Project Grant. |
| 2022-4130 | 10600 | 0 | Camano Co-op Water & Power | Chapman Creek Fish Passage Culvert | Island | 958 | \$627,210 | Relocate water main for replacement of a culvert for a fish passage bridge. <i>Project was withdrawn.</i> |
| 2022-4132 | 10600 | 52 | Camano Co-op Water & Power | Hansen Intertie | Island | 958 | \$353,500 | Design and replace existing asbestos concrete water mains with new polyvinyl chloride piping and install new service meters. Design and construct interties with Indian Beach, Camp Comfort, and Manaco Beach/Cove water systems. <i>Project was withdrawn.</i> |
| Total | | | | | | | \$48,467,107 | |

Appendix E: Funded DWSRF 2022 Preconstruction Loan Applicants List

| Health Application | Water System ID | Final Score | Applicant Name | Project | County | Population | Loan Request Amount | Project Description |
|--------------------|-----------------|-------------|-------------------------------------|---|--------------|------------|-----------------------|--|
| 2022-4021 | 75265 | 10 | NE Sammamish Sewer & Water District | AC Transmission Main Replacement Phase 1 | King | 8,183 | \$510,000 | Complete engineering design for an asbestos concrete water main replacement. |
| 2022-4030 | 62750 | 10 | City of Oakville | Water System Plan Update | Grays Harbor | 825 | \$127,500 | Complete water system plan. |
| 2022-4050 | 88150 | 10 | Three Lakes Water Association Inc | 171st Ave SE AC Water Main Replacement | Snohomish | 2,170 | \$364,999.86 | Asset management development and complete engineering design for asbestos concrete water main replacement. |
| 2022-4051 | 19550 | 10 | Dockton Water Association | Planning and Engineering for Relocation of Sandy Shores PRV | King | 992 | \$102,000 | Engineering design services to 90 percent for construction drawings and opinions of probable construction costs for the relocation of the water main and pressure reducing station to improve pressure and velocity for the pressure zone serving the lower Sandy Shores neighborhood. |
| Total | | | | | | | \$1,104,499.86 | |