

2017 Supplemental Budget Decision Package

FINAL

Agency: 303 Department of Health

Decision Package Code/Title: WI Water Infrastructure Innovations

Budget Period: 2015-17

Budget Level: PL-Performance Level

Agency Recommendation Summary Text:

The Department of Health requests one-time authority of \$253,000 from the Drinking Water Administrative Assistance Account to educate potential Drinking Water State Revolving Fund loan recipients on performance based infrastructure *and* other innovations, and to create a long term financial strategy for the loan program.

Fiscal Summary: Decision package total dollar and FTE cost/savings by year, by fund, for 4 years. Additional fiscal details are required below.

Package Description

Operating Expenditures	FY 2016	FY 2017	FY 2018	FY 2019
Fund 05R-1	-	253,000	-	-
Total Cost	-	253,000	-	-
Staffing	FY 2016	FY 2017	FY 2018	FY 2019
FTEs	0	0	0	0
Object of Expenditure	FY 2016	FY 2017	FY 2018	FY 2019
C - Contracts		250,000		
E - Goods and Services		3,000		

Background

Congress established the Drinking Water State Revolving Fund (DWSRF) as part of its reauthorization of the federal Safe Drinking Water Act in 1996. The primary emphasis of the program is protection of public health and compliance with drinking water regulations. The DWSRF program provides loans to water systems for capital improvements that increase public health protection and compliance with drinking water regulations. The program is specifically designed as a financing program aimed at reducing drinking water project costs. The primary form of assistance is below-market-rate loans for drinking water projects.

Fiscal management of the DWSRF requires understanding and balancing public health needs against the long term performance and solvency of the fund. Comprehensive fund management should

maximize the fund's ability to meet current and anticipated financing needs through judicious management of all program resources. One option to maximize the program's effectiveness is to leverage (bond against) the DWSRF; however, the long term impacts of such policy decisions need to be fully understood to avoid unintended consequences.

The use of leverage bonds can provide an increase in available funds for projects over the near term and may provide greater cumulative financial assistance over the life of a program. Evaluating new leveraging requires detailed financial planning with the assistance of a financial advisor and/or underwriter. This process begins by establishing a reasonable baseline plan. Effective DWSRF fund management is not the result of a single action or decision that results in a successful program. Instead, program success depends on how a series of fund management questions are identified, answered, and revisited over time. A solid plan would project the financial future of the DWSRF using all of the relevant operating assumptions for the program.

Another opportunity to promote water infrastructure innovation is participation in the West Coast Infrastructure Exchange (WCX). The WCX was created by the Governors and Treasurers of the West Coast states and the Premier of British Columbia to promote the type of new thinking necessary to solve the country and region's water infrastructure crisis. The WCX is the first organization of its kind: A unique regional platform designed to spur infrastructure innovation and accelerate a pipeline of innovative infrastructure projects in California, Oregon and Washington. It provides best practices in infrastructure development, finance and operations; ensures infrastructure investment decisions consider the impact of climate change, and; provides unbiased advice and technical assistance to public sector decision makers.

The WCX members are leading experts in Performance Based Infrastructure (PBI). PBI is a project delivery method that keeps assets in public ownership and consolidates responsibility for the key phases of a project's full lifecycle (design, construction, and maintenance) into a performance-based contract with a private partner. This consolidation responsibility, with its emphasis on payment for performance, can create additional public benefits when compared with traditional procurement methods: design and construction innovations; shorter design and construction timelines; improved cost and schedule certainty; lower total lifecycle costs, and; long-term performance guarantees.

Problem Statement

Washington faces significant water infrastructure challenges as it contemplates its immediate and long term future. Multiple demands on the state budget make assisting with water infrastructure outside of the State Revolving Funds difficult. Solid and complete financial analysis is required to understand the implications of any particular DWSRF financial policy choice, such as leveraging the fund to provide additional cash flow. The necessary resources and expertise to conduct this analysis is not currently available in the agency.

Additionally, educational forums and resources for utilities, jurisdictions and water systems to learn about Performance Based Infrastructure and other new cost saving innovations don't exist in our state. This limits the state's ability to implement creative solutions to address the water infrastructure crises. A new approach is necessary to make the most of every dollar invested in water infrastructure.

Proposed Solution

To address these issues, the Department of Health proposes to:

- Contract with a financial advisor or underwriter with a thorough understanding of the DWSRF and its federal regulations. This advisor will conduct a complete financial analysis of the Department of Health's DWSRF program and create a long term financial strategy.
- Enter into an agreement with the WCX to provide educational forums and resources for utilities, jurisdictions and water systems. These forums will include education on Performance Based Infrastructure and other new cost saving innovations.

Contact Information:

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Relation to Agency Strategic Plan and Results WA

Results Washington:

This proposal supports Results Washington Goal 2: “Prosperous Economy” by supporting improvements in state infrastructure and creating additional family wage jobs throughout the state.

This proposal maximizes the effectiveness of funding for critical drinking water infrastructure improvements, which supports Results Washington goal 5: “Efficient, effective & accountable government”.

Agency Strategic Plan

Public water system capital improvements are critical for long-term health and economic vitality of Washington's communities. This proposal is essential to implement the Department of Health's (DOH) 2016-19 strategic plan Goal 5: “Ensure core business services are efficient, innovative, and transparent” by streamlining the state revolving fund process.

This proposal also supports DOH's Goal 1: “Protect everyone in Washington from communicable diseases and other health threats” by increasing our efforts to ensure safe and reliable drinking water systems for our communities.

Base Budget: If the proposal is an expansion or alteration of a current program or service, provide information on the resources now devoted to the program or service. Please include annual expenditures and FTEs by fund and activity (or provide working models or backup materials containing this information).

The Drinking Water Administrative Assistance Account is supported by a 1% loan fee paid by loan recipients. The purpose of the fund is to provide assistance to the successful administration of the loan program. There is more than sufficient fund balance in the account to support this request.

This fund currently supports staff that work to provide administrative functions of the loan program, such as conducting the application process, rating and ranking projects, providing technical assistance to loan recipients etc.

Activity: A003 Drinking Water Protection

	FY 2016	FY 2017
Fund 05R-1	147,000	147,000
FTEs	1.2	1.2
Object of Expenditure		
Obj. A	94,000	94,000
Obj. B	30,000	30,000
Obj. E	17,000	17,000
Obj. G	6,000	6,000
Total Direct Costs	147,000	147,000

Decision Package expenditure, FTE and revenue assumptions, calculations and details: Agencies must clearly articulate the workload or policy assumptions used in calculating expenditure and revenue changes proposed.

FY 17

\$100,000 Contractual for a full financial analysis with recommendation's for the long term financial strategy of the DWSRF Loan Program.

\$150,000 for the Westcoast Infrastructure Exchange to educational forums and resources for utilities, jurisdictions and water systems to learn about Performance Based Infrastructure and other new cost saving innovations.

\$3,000 is for administrative costs (indirects).

Decision Package Justification and Impacts

What specific performance outcomes does the agency expect?

The following questions will have answers and recommendations for the DWSRF:

- Should loan terms be adjusted?
- Does the fund receive adequate returns on cash and reserve fund investments?
- Are fund resources being utilized effectively?
- Does the fund have a sound loan portfolio?
- Is sufficient project assistance being made available?
- Does the fund have sufficient administrative resources?
- Should the fund leverage?
- What is the sustainable funding level for the program?

WCX will provide a number of educational forums and resources for utilities, jurisdictions and water systems to learn about Performance Based Infrastructure and other new cost saving innovations. Utilities will be more informed and able to implement new innovations as appropriate.

Performance Measure detail:

No current tracked measures in Results Washington or in OFM's Performance Management System.

Fully describe and quantify expected impacts on state residents and specific populations served:

State residents on public water systems will benefit from a well-planned infrastructure funding program that can sustain demands now and into the future.

What are other important connections or impacts related to this proposal? Please complete the following table and provide detailed explanations or information below:

Impact(s) To:		Identify / Explanation
Regional/County impacts?	Yes	Identify: Information on innovative infrastructure solutions.
Other local gov't impacts?	No	Identify:
Tribal gov't impacts?	No	Identify:
Other state agency impacts?	Yes	Identify: Funding for the Westcoast Infrastructure Exchange will cover Washington's contribution for one year.
Responds to specific task force, report, mandate or exec order?	No	Identify:
Does request contain a compensation change?	No	Identify:
Does request require a change to a collective bargaining agreement?	No	Identify:
Facility/workplace needs or impacts?	No	Identify:
Capital Budget Impacts?	No	Identify: .
Is change required to existing statutes, rules or contracts?	No	Identify:
Is the request related to or a result of litigation?	No	Identify lawsuit (please consult with Attorney General's Office):

Is the request related to Puget Sound recovery?	No	If yes, see budget instructions Section 14.4 for additional instructions
Identify other important connections		

Please provide a detailed discussion of connections/impacts identified above.

This request supports Executive Order 13-03 requiring “Consideration of Life Cycle and Operating Costs in Public Works Projects.” It will also benefit local governments statewide by providing them a sustainable funding source for drinking water infrastructure as well as information on innovative infrastructure options.

What alternatives were explored by the agency and why was this option chosen?

With the desire to continue to look for the most effective solutions when it comes to water infrastructure funding, the timing to utilize what the WCX has to offer for Washington water utilities is great. Another option would be to look to another state agency to provide the Washington’s funding commitment to WCX.

Status quo won’t provide the level of drinking water infrastructure funding needed for its 20 year needs. Conducting a complete analysis of the program is the best option to make educated decisions and to provide a solid financial strategy with minimal impacts on borrowers. Understanding the impacts of policy decisions and actions, such as leveraging, is crucial for the long term success of this program.

What are the consequences of not funding this request?

The state would also not benefit from a thorough analysis of the DWSRF and could miss out on making well educated policy decisions that could enhance the program and its funding.

If expenditure authority is not provided for the WCX, another state agency would need to come up with funding for Washington’s support if it is to participate in the exchange.


How has or can the agency address the issue or need in its current appropriation level?

DOH does not have sufficient appropriation to absorb these additional costs.

Other supporting materials: Please attach or reference any other supporting materials or information that will help analysts and policymakers understand and prioritize your request.

Supplemental Information:

Information technology: Does this Decision Package include funding for any IT-related costs, including hardware, software, services (including cloud-based services), contracts or IT staff?

- No 
- Yes Continue to IT Addendum below and follow the directions on the bottom of the addendum to meet requirements for OCIO review.)