

Department of Ecology – Water Quality Financial Assistance Council Meeting

November 10, 2016

In Attendance: Shelly McMurry, Jeff Nejedly, Daniel Thompson, Kim Wagar, Don Gatchalian, James Kelly, Robin Zukoski, Lisa Remlinger, Brian Cochrane, Ruby Irving, Dan Kaplan, Janet Cherry

Welcome and Introductions, [Shelly McMurry](#)

FMS Update, [Jeff Nejedly](#)

- Water Infrastructure Finance and Innovation Act (WIFIA), of the [Water Resources Reform and Development Act of 2014 \(WRRDA\) \(PDF\)](#) was signed into law by the President on June 10, 2014, and authorized the WIFIA program to be managed by EPA Headquarters Water Infrastructure Finance Innovative Authority (WIFIA) Legislation. Dependant on 2017 Federal Budget. No appropriation yet. They will leverage the appropriation and stated that through leveraging they can fund \$65M worth of projects with \$1M appropriation. The projects must be over \$20M for large communities and over \$5M for smaller communities. There is going to be a \$300,000 to \$500,000 processing fee per loan.
- SRF staff attended the national Council of Infrastructure Finance Authority (CIFA) conference in Austin the beginning of November. EPA HQ has a consultant working with states to develop a survey of consultants and potential applicants. Shelly talked to the lead staff person and said Washington State was interested if they decide to continue the contract. Ecology could run-Marketing plan-Survey
- Office of Financial Management (OFM) is developing a report (due out in December) called Water Infrastructure Investment Analysis that will outline the states infrastructure needs for water. The 2016 supplemental capital budget (chapter 35, laws of 2016 1st sp. sess.) requires the Office of Financial Management (OFM) to contract for an analysis of the economic implications of water infrastructure and fisheries habitat restoration needs in Washington State. The analysis must incorporate existing data and information relating to integrated water supply and management planning, multiple benefit approaches that reduce the risk from floods and protect and restore naturally functioning areas, and low-impact development retrofits to reduce toxics and other pollutants in storm water. There has been some outreach sessions to gather information. Most communities are not planning for their 20 years needs other then for wastewater.

Legislative and Budget Update, [Kim Wagar](#)

- New funding for the National Estuary Program (NEP). \$5M for 5 years for stormwater managed through Ecology.

- Program is working on legislation to change the funding distribution on Wastewater facility operator's certification. Currently the fee goes into the general fund. This legislation would create an account that the fee would go into a fund to pay for the operator's certification program. It is small amount but it would offset the costs of running the program.
- Budget requests are being worked on within Ecology and haven't been finalized and sent to OFM so the following is subject to change.
 - Capital budget
 - For SRF we will be requesting \$210M appropriation authority
 - In 2016 supplemental had direct cuts to Stormwater and Centennial funds due to MTCA shortfall. The intention of legislature was to fund in the future. The Centennial and Stormwater decision packages would restore \$30M that was cut. The total request is about the same as the request last biennium. Still hasn't gotten to the governor's office. Due in September. Still possible changes because it's in internal review.
 - Since SFAP was funded by MTCA, and MTCA will have no new requests we will ask it to be funded out of State Building Construction Account (SBCA). MTCA was over committed and there isn't enough to cover reappropriations. A new estimate came out that there will be an additional \$380M drop in projected MTCA revenue for the next biennium. Supposed to recover in 2021? OFM is conducting a study to look at the MTCA fund, future needs and funding.
 - The message for FY18 cycle we are uncertain what will be available for Centennial.
 - Operating budget
 - Ecology is moving away from using 4% SRF funds for administration. 17-19 biennium we will be transitioning to using the administration account.
 - Looking to replace our Ecology Loan Tracking System (ELTS). We did an evaluation of needs last year. Because our fiscal office have 8 other obsolete. Decision package with appropriation authority for a "financial suite". We opted to go that route because when we did the Lean effort, it was obvious that the other systems created a lot of inefficiency. Hopefully we will have the authority to work on this last spring. Probably cost \$300,000 to \$500,000 of SRF to cover that cost. It is being cost allocated. Probably use the 4% SRF administration cost for that. DOH RFP for a similar system closes on the 26th. They budgeted \$500,000. Looking for someone to develop an accounting system that speaks to their application system.
- \$250,000 budget proviso for an OFM study on water bills, flood control, Stormwater and water resources. Report due by December.
- The Public Works Trust Fund sent out a RFP for projects for \$100M. PWTF is required to submit a list to the Legislature. Commerce/PWB is considering directing funds to infrastructure that would support affordable housing. Conversation has begun to address lead abatement in drinking water and lead paint. The board needs to figure out how to use the PWTF.

FY18 Funding Cycle applications, [Daniel Thompson](#)

Category	# of Projects	Loan Requested or Willing to Accept	Grant Requested
Nonpoint Source Pollution Control Activity	58	\$7,023,071	\$13,711,885
Onsite Sewage System	2	\$8,000,031	\$1,000,000
Stormwater Activity	9	\$284,573	\$2,529,809
Stormwater Facility	64	\$32,555,846	\$64,673,360
Wastewater Facility - Hardship ¹	18	\$77,964,300	
Wastewater Facility - Non-hardship	17	\$89,034,564	
Wastewater Facility - Refinance	1	\$125,000	
Totals	169	\$214,987,385	\$81,915,054

- There has been higher demand this cycle. We have \$107M in loan funds available.
- We have had the most hardship applications in the past several cycles. Total requests for hardship is \$78M.
- We still have \$8M worth of project promised funding from last year's IUP that we couldn't fund and said we would fund if we were allocated Centennial grant in the 17-19 budget.
- There was \$7M of loan requests for nonpoint projects. This is the highest amount requested for nonpoint ever. Why?
 - The two largest requests were the Spokane Conservation District requesting \$3.3M for "Farmed Smart Certification and Direct Seed Loan Implementation. And City of Lynden requested \$2.7M stream resoration on Pepin and Double Ditch Creek.
- There was a request to add \$8M to the Regional onsite loan project, adding 5 new counties to the program.
- Loan request is higher than last year.
- Some stormwater projects have reapplied even though they are on last year's stormwater list to be funded if stormwater funds are appropriated.

SRF and Centennial potential rule revisions WAC, [Daniel Thompson](#)

Thanks to FAC, Ecology is getting good feedback on the potential rule revisions. Daniel is taking the feedback to update is Powerpoint to incude recommendations. See meeting materials.

The next step is to issue the CR-102. The plan is to send out early March 2017. There will be a 30 day public comment period and at least one hearing. The agency goal to be done by May 31, 2017.

The group had a handful of issues to discuss this meeting.

Loan Interest Accrual

- Ecology wants to know if FAC wants to explore giving a interest rate incentive for recipients who finish their projects earlier then a certain timeframe. PWTF will reduce

interest rates by .5% if projects finish faster than agreed. DWSRF also provides this incentive. They said you must define completion really well and have a timeframe of within 24 months from loan execution to closeout. It is only for construction projects.

- The group wasn't sure this is the best way to address the goal of getting projects done quicker.
- The interest rate is important for the health of the account and there was concern this would negatively impact that.
- Not hearing strong support for pursuing

Reduce the interest rate for nonpoint projects

- We give priority of projects for nonpoint projects, but a set aside of 20% of the fund must go to nonpoint projects. We have never had enough requests to meet that 20%. The money roles over into funding wastewater projects.
- Many nonpoint projects are eligible for grant.
- Nonpoint projects are only on average 2% of the SRF loan portfolio.
- Direct seed local loan projects rely on getting farmers interested in their program by providing cheaper rates than the farmer can get from a traditional bank. Right now the gap is close because the Conservation District needs to charge a fee for administering the local loan program. Providing a lower interest rate to the Conservation District would help them with more competitive rates.
- Will a reduced interest rate give enough of an incentive for recipients to do nonpoint projects?
- The group agreed to keep it on the list to get feedback through the rule revision process.

Should we allow a rate reduction on a case by case basis?

- It undermines the process and would open up the can of worms and political nightmare.
- Giving discounts affect the bottom line and health of the fund.
- No support for adjusting on a case by case basis.

Rate setting

- Should we change when we set the rates and allow them to be adjusted closer to issuing the IUP?
- Right now we announce a rate when we issue the guidelines. Those loan agreements may not be signed for another 6 to 9 months after the loan rate is announced. Rates can change in that timeframe.
- Local governments need to know the rates to know the impact to the rate payer and adjust their message. The current method gives certainty about the rates. If the rate goes up, they may not have the support for the project.
- Allow us to adjust the rate down at the time of publishing the IUP.
- We currently have the ability to drop the rates by having the director approve across the board.
- Support for adding the ability to look at the rate before the IUP, if rate went down (not up), we could adjust across the board without going through the director. And consider financial stability of the account.

Interest rate and loan terms

- David Dunn presented. See Meeting Materials

- His presentation asked these questions:
 - How generous should we be?
 - Do you want to include this in the rule or allow flexibility?
- Are we currently keeping up with the water quality need? How many people can't meet water quality? Put context about what we are trying to do.
- We know that water quality standards are changing and there will be a need to update treatment plants. Offering 30 year term loans for hardship are a good thing.
- The group supported using 30 year term loans for anybody and using 80% of the 20 year bond index. It is cleaner and better to use the same bond so we never are in the situation where the 30 year term rate is lower than 20 year term rate. For hardship, there would be a sliding scale reduced rate similar to the 20 year hardship rate table.

SRF Cash Flow Modeling and Funds Available, [Shelly McMurry](#) and [David Dunn](#)

- Please see Meeting Materials
- Shelly, Kim and David quarterly update an SRF Cash Flow model where they pull reports from the state accounting system and Ecology's grants and loans payables and receivables systems. They add in the actuals and the model uses the actuals to adjust the projections. This model helps Ecology determine how much we can comfortably put out each funding cycle.
- The SRF account balance was as high as \$225M and the goal is to get it down to \$30M. The cash flow modeling and past "acceleration" Ecology did is working and the cash balance is going down.
- Some model assumptions:
 - Federal Cap grant reduced by 25% each year and no more cap grant by SFY20/FFY19
 - Continue to offer \$107-95M annually
 - All loans are 20 year at base interest rate
- Summary
 - We are seeing our acceleration beginning to kick in and disbursement numbers are up.
 - Our goal is to reduce our cash balance down to a range of \$20-30M
 - Based on existing loan commitments, we should reach \$48M by 10/1/2019 and drop to \$25M by 10/1/22.
 - We will be tracking closely and adjust accordingly.

Regional Onsite Septic Local Loan Program, [Jeff Nejedly](#)

- Failing septic systems are a public health hazard as well. Sewage backing up in a backyard or basement can be a hygienic nightmare for the homeowner. Since septic system repairs or replacements can run in tens of thousands of dollars, they are also a major financial burden for homeowners, many of whom may not qualify for traditional lending. As such, Ecology can provide funding for OSS-related projects through the Water Quality Combined Financial Assistance Program.
- In 2014, a coalition, which included the State Department of Health, Ecology, and local health departments, recommended the creation of a regional loan program to finance the

repair and replacement of failing septic systems in the Puget Sound. The 2014/2015 Puget Sound Action Agenda included that recommendation as a priority action. The Tacoma-Pierce County Health Department made that recommendation a reality when it applied and received funding to start a regional onsite sewage system loan program.

- The original funding application was written to include all Puget Sound and coastal counties. Ten counties initially joined and an 11th joined very recently. The original funding offer was based on the water quality and public health needs of the marine waters of the state, such as shellfish bed downgrades, so initial participation is limited to the marine counties.
- The Regional OSS Loan Program (also known as the “RLP”) consisted of a partnership between Ecology, Department of Health, the public agencies (local health jurisdictions or counties) and a financial institution partner.
- The RLP officially started in July 2016 when Ecology signed a contract with Craft3, a nonprofit lending organization. Craft3 provides affordable loans to eligible property owners with failing, malfunctioning, or inadequate septic systems in participating marine counties. Ecology provides capital for Craft3’s loans.
- The RLP simplifies and expands the local loan program by creating a unified program that takes the counties and health departments out of the lending business. It eliminates risk from the Counties. The lender takes on the risk of defaults. The lender (Craft3) is able to provide loans to a larger number of borrowers, especially property owners who do not qualify for traditional loans. With one program, there is one set of lending criteria. The loan fees and the interest rates are the same for each county or health district.
- The RLP is governed by an MOU signed by each of the participating counties or health jurisdictions, plus Ecology and the Department of Health, and a set of guidelines that are updated occasionally as the program changes and adjusts. Both the MOU and the guidelines discuss responsibilities for each partners. In addition to those responsibilities mentioned, all partners are expected to participate in conference calls, the annual meeting, and any ad-hoc meetings. All partners are expected to contribute to outreach and spreading the word about the program in their different capacities.
- Right now, participation in the program is limited to the marine counties. Ecology and our Regional Loan Program partners are working on strategies to expand the RLP beyond its original scope. The options we have identified are two-fold:
 - Include/invite counties who have been offered Ecology funding to participate. This may require the new county to include their intention to join the RLP in the application.
 - Expand the geographic scope beyond the marine counties with a new funding application. This step would require one or more of the partners to apply for additional funding, and write the application to include water quality needs for areas beyond the marine waters.
- These steps are needed because any expansion requires Craft3 to conduct additional outreach and education, and that budget is limited as of now. Adding more funds to the overall project is important as it expands. And the funds were offered to address specific water quality issues. Any expansion needs to show that there are documented water quality and public health issues being addressed in the new counties.
- We are still figuring out how the program works, and addressing issues and making changes as they come up. This program is very new, and unlike anything we’ve done before, so we do not have much of a blueprint to work with.

Roundtable

Brian Cochrane, Conservation Commission

- Working on getting better conservation data and improving their database management. They to help show need from the nonpoint perspective.

Dan Kaplan

- Ecology's regional office requested King County to approve Force account work. They are wanting to know why they need to approve those costs when they were already approved in the application. Is this a change in practice? David Dunn will look into it and get back to Dan.

Don Gatchalin

- Lower Yakima groundwater plan development. Plan will be ready by June 2017. This includes deep ground monitoring.

Jim Kelly

- City of Arlington has a Water reclamation facility. They are seeing improvement in Water Quality. Shelly expressed interest in making it a case study. They have good before and after data.

Future FAC Meetings (Tentative):

March 15th, 2017

July 19th, 2017

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