

# Potential Revisions to:

- **Chapter 173-98 WAC (CWSRF)**
- **Chapter 173-95A WAC (Centennial)**



# Abbreviations and Acronyms Used on Slides

<b>AS = Additional Subsidization</b>	<b>IUP = Intended Use Plan</b>
<b>CEA = Cost and Effectiveness Analysis</b>	<b>MHI = Median Household Income</b>
<b>Centennial = Centennial Clean Water Fund</b>	<b>NPS = Nonpoint Source</b>
<b>CWA = Clean Water Act</b>	<b>OSS = Onsite Sewage System</b>
<b>CWSRF = Clean Water State Revolving Fund</b>	<b>PCI = Per Capita Income</b>
<b>DEP = Designated Equivalency Projects</b>	<b>PWAA = Public Works Assistance Account</b>
<b>EAGL = Ecology Administration of Grants and Loans</b>	<b>PWB = Public Works Board</b>
<b>FAC = Financial Assistance Council</b>	<b>SERP = State Environmental Review Process</b>
<b>FCA = Financial Capability Assessment</b>	<b>Step 1 = Planning Project</b>
<b>FP = Forgivable Principal</b>	<b>Step 2 = Design Project</b>
<b>Funding List/IUP = Funding Offer List and Intended Use Plan</b>	<b>Step 3 = Construction Project</b>
<b>GAAP = Generally Accepted Accounting Principals</b>	<b>Step 4 = Design and Construction Project</b>
<b>GASB = Governmental Accounting Standards Board</b>	<b>SWF = Stormwater Facility</b>
<b>GC/CM = General Contractor/Construction Manager</b>	<b>TIB = Transportation Improvements Board</b>
<b>GMA = Growth Management Act</b>	<b>WAC 173-95A = Centennial Rule</b>
<b>GPR = Green Project Reserve</b>	<b>WAC 173-98 = CWSRF Rule</b>
<b>I/O = Initiation of Operations</b>	<b>WQ = Water Quality</b>
<b>IGEA – Investment Grade Efficiency Audit</b>	<b>WWF = Wastewater Facility</b>



# “Housekeeping”

## ■ Examples:

- Some minor wording errors in both rules
- Wrong name of CWSRF statute in WAC 173-98-010
- Wrong CWA references in WAC 173-98-010, -030(1), and -040(8)
- Wrong application references in WAC 173-98-200(3) and WAC 173-95A-300(3)
- GMA language in WAC 173-98-710(1) and WAC 173-95A-610(1) suggests it might apply to activity projects



# 30-year Loan Terms

## ■ Currently:

- CWA and Chapter 90.50A RCW allow loans “...at terms not to exceed the lesser of 30 years and the projected useful life (as determined by the State) of the project to be financed...”

## ■ Issues:

- WAC 173-98-300(5), -310(3)-(4), and -400(3) and WAC 173-95A-200 and -400(7) limit to 20 years

## ■ Suggestions:

- Offer to everyone
- Only offer to a certain % of agreements
- Only offer to “hardship” communities
- Base interest rate on the “Revenue Bond Index”
  - 25 revenue bonds that mature in 30 years; rates ~ half a percentage point higher than 20-year loans
  - Make rates even higher in order to make available to more recipients



# Accounting Practices

## ■ Currently:

- CWA requires use of GAAP as issued by GASB
  - Actually required by federal regulation since 1988, including reporting of infrastructure assets (required by GASB Statement 34 since 1999)
- WAC 173-98-910(1) says, *“Recipients must maintain accounting records in accordance with RCW 43.09.200 Local government accounting—Uniform system of accounting.”*
  - GAAP requires accrual-basis accounting; state standards allow cash-basis accounting

## ■ Issues:

- Rule doesn't include GAAP standards

## ■ Suggestions:

- Change to, *“Recipients must maintain accurate records and accounts for the project in accordance with Generally Accepted Accounting Principles as issued by the Governmental Accounting Standards Board, including standards related to the reporting of infrastructure assets, or in accordance with the equivalent state standards in Chapter 43.09.200 RCW Local Government Accounting – Uniform System of Accounting.”*



# Additional Subsidization

## ■ Currently:

- WAC 173-98-500(2)(a) says 9% of each Cap Grant is set-aside for AS

## ■ Issues:

- 9% figure is wrong

## ■ Suggestions:

- Correct erroneous % or delete specifics
- Delete subsection entirely
  - AS may not be required in any given year, and it won't be allowed when the Cap Grants total <\$1B nationally; plus, the amounts and percentages can be overridden by appropriation
  - Describe AS requirements in Funding List/IUP



# Bid Overruns and Change Orders

## ■ Currently:

- WAC 173-98-520(5)(a) and WAC 173-95A-520 (4)(a) limit bid overruns to 10% of “*engineer’s original estimate*”
- WAC 173-98-520(6)(a) and WAC 173-95A-520 (5)(a) limit change orders to 5% of construction contract

## ■ Issues:

- Limits funding we can provide even if available and legitimately needed

## ■ Suggestions:

- Remove caps and base on need and availability of funds
- If language remains, specify bid overruns are based on bid documents, not engineer’s original estimate



# Capacity for Growth

## ■ Currently:

- WAC 173-98-100(4) limits loans to, “...*up to twenty years capacity for water pollution control facilities...*”

## ■ Issues:

- No need to limit loans to 20 years capacity

## ■ Suggestions:

- Remove limit entirely
- Change limit to 30 years capacity





# Cost and Effectiveness Analysis

## ■ Currently:

- CWA requires a CEA for all projects receiving CWSRF funding; includes choosing the alternative that, to the “*maximum extent practical*”, maximizes the potential for efficient water use, reuse, recapture, and conservation, and energy conservation
- WAC 173-98-730 describes the CEA requirements; they apply to all facility projects
  - Handled under SERP required for Step 2, 3, and 4 facility projects

## ■ Issues:

- Section only applies to facility projects
- Section doesn't include water and energy efficiency language

## ■ Suggestions:

- Revise section to state the CEA is required for all projects and must include water and energy efficiency
- Delete section entirely, as we don't have separate sections in the rule for all the other federal requirements



# Design-Build vs. General Contractor/Construction Manager

## ■ Currently:

- WAC 173-98-600 defines requirements for projects using “*Design-Build*” and “*Design-Build-Operate*”
  - Statutory requirements in RCW 39.10.300-330
- GC/CM is similar, but significantly different
  - Statutory requirements in RCW 39.10.340-410

## ■ Issues:

- Section doesn't apply to GC/CM

## ■ Suggestions:

- Clarify that section does not apply to GC/CM
- Add new section for GC/CM requirements



# Emergency Funding

## ■ Currently:

- No process to provide “emergency” funding

## ■ Issues:

- Significant water quality problems can result from drought, floods, fires, volcanic eruptions, and earthquakes, but we can only provide assistance via our standard process

## ■ Suggestions:

- Add new section for an Emergency Funding Process



# Funding Allocation Process

## ■ Currently:

- Funding allocation is based on available funds, project category, funding source requirements, and rating/ranking

## ■ Issues:

- The current process can result in few, if any, projects in a particular region receiving funding
  - Example: All offered SFY17 SFAP funding went to ERO projects

## ■ Suggestions:

- Include Ecology region in the funding allocation process



# Funding Applicant Workshops

## ■ Currently:

- WAC 173-98-210(2)(b) and WAC 173-95A-310(2)(b) say, *“Conduct at least one application workshop in each of ecology's four regions.”*

## ■ Issues:

- No flexibility to reduce the number or replace with web-based workshops if desired

## ■ Suggestion:

- Revise to say *“Conduct application workshops”* & allow workshops to be onsite or web-based
  - Make decisions based on recipient input



# Green Project Reserve

## ■ Currently:

- WAC 173-98-500(1)(a) says 25% of Cap Grant is set-aside for GPR projects
- WAC 173-98-500(1)(b)-(e) says we allocate funds first to GPR category, subtract it from other categories, then allocate to other categories

## ■ Issues:

- 25% figure is wrong
- Allocation language is wrong

## ■ Suggestions:

- Correct erroneous % or delete specifics
- Delete erroneous allocation language
- Delete GPR references from section entirely
  - GPR may not be required by future Cap Grants, and it won't be required when grants are no longer awarded
  - Describe any requirements in Funding List/IUP



# Hardship—Criteria

## ■ Currently:

- WAC 173-98-300 and WAC 173-95A-400 limit consideration for hardship funding to projects where the population paying for the project is  $\leq 25,000$

## ■ Issues:

- Large communities may have low MHI and high wastewater fees

## ■ Suggestions:

- Eliminate population cap
- Maintain cap but adjust annually
- Use PCI rather than MHI
  - Same information source but less variability



# Hardship—Maximum Subsidy

## ■ Currently:

- WAC 173-98-520(3)(b) and WAC 173-95A-400(5)-(7), -400(10) Figure 2, and -520(3) cap the combined grant/FP loan for WWF construction hardship projects at \$5M

## ■ Issues:

- \$5M cap today is worth less than when limit was established
- \$5M cap is too high, as it depletes what's available for NPS projects

## ■ Suggestions:

- Increase cap and adjust annually
- Decrease cap so more is available for NPS projects





# Interest Accrual

## ■ Currently:

- **WAC 173-98-400(1) requires interest accrual on loan funds as they are disbursed**
  - This “deferred interest” is added to principal at completion

## ■ Issues:

- **Some recipients wait until near completion to submit payment requests to avoid accruing deferred interest**
  - Impacts our cash-flow modelling

## ■ Suggestion:

- **Charge interest on funds that are “committed” (like issuing a bond)**
  - Could encourage drawing funds more rapidly & closing-out projects sooner



# Interest Rates

## ■ Currently:

- WAC 173-98-400(2) and WAC 173-95A-200 establish criteria for standard rates
- WAC 173-98-300(5), WAC 173-98-310(2), and WAC 173-95A-400(7) establish criteria for hardship rates
- WAC 173-98-400(4) describes process for reducing standard rates
  - Reductions apply across the board

## ■ Issues:

### ➤ No flexibility

- Example: Spokane returned \$30M in SFY15 and didn't pursue many more millions in funding because they were able to get a nearly equal bond rate with no federal conditions attached
- Example: PWB previously reduced their rates just before making funding offers because bond rates had decreased
- Example: OR and OH reduce rates for NPS sponsorship projects
- Example: DEPs must do extra work in order to meet specific federal requirements; this costs more

## ■ Suggestions:

- Allow rate reductions on a case-by-case basis
- Allow option to adjust rates just prior to publishing the Funding List/IUP
- Lower rates for a facility project if recipient also sponsors a NPS project



# Land Acquisition

## ■ Currently:

- CWA allows CWSRF loans to acquire land for siting a facility
- WAC 173-98-100(19) allows CWSRF loans to acquire land for land treatment and “wetland habitat preservation”
- WAC 173-95A-110(3) allows Centennial loans to acquire land for land treatment, prevention of water pollution, siting a facility, wetland habitat preservation
- Funding Guidelines broaden definition of “wetland habitat preservation” to include riparian area preservation and drinking water source protection

## ■ Issues:

- No option for CWSRF loans to acquire land for siting a facility
- No option for Centennial grants to acquire land for hardship projects
- Inconsistency between rules and guidelines

## ■ Suggestions:

- Allow CWSRF loans to acquire land needed for siting a facility
- Allow Centennial grants in hardship communities to acquire land for land treatment and siting a facility
- Make language in rules and guidelines as consistent as possible



# Onsite Sewage Systems Repair and Replacement Programs

## ■ Currently:

- WAC 173-98-310(2) describes how final loan blended interest rate is calculated
- WAC 173-98-310(4) Figure 4 limits “*small commercial enterprises*” to annual gross revenue of \$100K

## ■ Issues:

- Final loan blended interest rate calculation description is wrong
- Annual gross revenue cap may be too small

## ■ Suggestions:

- Clarify final loan blended interest rate calculation
- Increase cap to “*annual net revenue of \$100K*” and adjust annually
- Increase cap to “*annual gross revenue of \$200K*” and adjust annually
- Delete the cap entirely; just base definition on flow



# Perpetuity Definition

## ■ Currently:

- WAC 173-98-030(56) defines as, “*Perpetuity means the point at which the revolving fund is earning at least fifty percent of the market rate for tax-exempt municipal bonds on its loan portfolio.*”

## ■ Issues:

- Interest rates are always fluctuating, so while we may meet the definition today, we may not tomorrow, next week/month/year
- Hardship interest rates—which can be as low as 0%—impact fund
- FP loans also impact fund

## ■ Suggestions:

- Redefine to not link with interest rates
- Eliminate definition, as it’s not defined by the CWA or EPA



# Preconstruction in Hardship Communities

## ■ Currently:

- WAC 173-98-520(2)(b) limits FP loans for preconstruction to 50%; remainder is standard loan
- WAC 173-95A-110(2)(a) and (b) only allow Centennial loans for preconstruction

## ■ Issues:

- Even a 50% standard loan can have a big impact on ratepayers in small, low income communities
- No allowance for Centennial grants for preconstruction

## ■ Suggestions:

- Increase allowable % of FP loan for preconstruction in hardship communities
- Allow 0% rates for preconstruction in hardship communities
- Allow Centennial grants for preconstruction in hardship communities



# Prior Authorization

## ■ Currently:

- WAC 173-98-800(1) and WAC 173-95A-700(1) describe the process for obtaining “prior authorization” to incur costs

## ■ Issues:

- Section is obsolete and not needed
  - Addressed for CWSRF loans if we’re providing interim refinance
  - We will reimburse for costs incurred after the Final List/IUP is published (earlier, in some cases) without the process described for Centennial grants

## ■ Suggestions:

- Delete most of the language



# Public Bodies Definition

## ■ Currently:

- WAC 173-98-030(63) and WAC 173-95A-020(53) define as *“Public body means a state of Washington county, city or town, conservation district, other political subdivision, municipal corporation, quasi-municipal corporation, Indian tribes recognized by the federal government, or institutions of higher education when the proposed project is not part of the school's statutory responsibility.”*

## ■ Issues:

- Rules, not statutes, prohibit providing funding to other state agencies, departments, or offices

## ■ Suggestions:

- Allow funding for other state agencies, departments, & offices





# Publicly-owned Industrial Facilities

## ■ Currently:

- WAC 173-98-110 lists as ineligible funding for “6) Commercial, institutional or industrial wastewater pollution control activities or facilities or portions of those facilities that are solely intended to control, transport, treat, dispose, or otherwise manage wastewater; 7) Commercial, institutional or industrial monitoring equipment for sampling and analysis of discharges from municipal water pollution control facilities; 8) Commercial, institutional or industrial wastewater pretreatment”
- WAC 173-95A-120 lists as ineligible funding for, “3) Commercial, institutional or industrial wastewater pretreatment; 6) Facilities intended solely to control, transport, treat, dispose, or otherwise manage commercial, institutional, or industrial wastewater; 14) Monitoring equipment for sampling and analysis of commercial, institutional, or industrial discharges”

## ■ Issues:

- Rules, not statutes, prohibit funding for publicly-owned industrial facilities

## ■ Suggestions:

- Allow funding for publicly-owned industrial facilities



# Repayment Dates

## ■ Currently:

- WAC 173-98-430(2) requires loan repayments begin 1 year after project completion or I/O date, whichever occurs first

## ■ Issues:

- For recipients with multiple loans (e.g., King County), tracking becomes very difficult because the payment dates vary

## ■ Suggestions:

- Standardize repayment dates—e.g., July 31 & January 31—regardless of the project completion or I/O date
  - Would simplify tracking for recipients with multiple loans
- Establish an amortization schedule to accomplish this providing the 1<sup>st</sup> payment occurs no later than 1 year after the project completion or I/O date



# Repayment Period

## ■ Currently:

- WAC 173-98-430(2) requires loan repayments to begin 1 year after project completion or I/O, whichever is first

## ■ Issues:

- Pace of money in/out of fund could be much faster if the beginning of repayment was tied to the first disbursement or a specific project activity instead

## ■ Suggestions:

- Begin repayment based on the 1<sup>st</sup> disbursement—e.g., 1 year after 1<sup>st</sup> disbursement
- Delay repayment until 1 year after project completion or I/O for hardship communities



# Reserve Account

## ■ Currently:

- WAC 173-98-450 requires “*revenue obligation secured loans*” to build a reserve account of 1 year of repayments within 1<sup>st</sup> 5 years of repayment

## ■ Issues:

- This may be useful for some communities, but it’s a burden on others who don’t have repayment issues and could use the funds for other projects

## ■ Suggestions:

- Eliminate requirement; only impose if the FCA or other information suggests it’s needed



# Step 4 Projects—Maximum Amount

## ■ Currently:

- WAC 173-98-520(3)(c) and -530(4) and WAC 173-95A-540(3) cap the total project cost for Step 4 projects at \$5M

## ■ Issues:

- \$5M today is worth less than when limit was established

## ■ Suggestion:

- Increase cap and adjust annually



# Step Process

## ■ Currently:

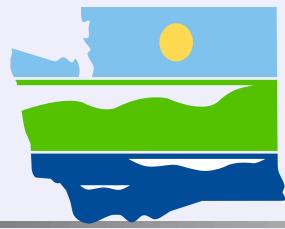
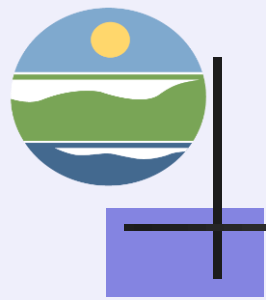
- **WAC 173-98-530 and WAC 173-95A-540 require the “step process” for facility projects**
  - Step 1: no prerequisites
  - Step 2: Ecology approval of planning/SERP to apply
  - Step 3: Ecology approval of planning/SERP and design to apply
  - Step 4: Ecology approval of planning/SERP to apply; Ecology approval of design before construction

## ■ Issues:

- **Very little flexibility**
- **Technically applies to stormwater facilities, too, but not being enforced**
- **SERP may be more meaningful during design step rather than planning step**

## ■ Suggestions:

- **Build in more flexibility**
  - Help avoid situations such as when the PWAA was swept & applicants were required to seek Ecology funding but did not meet the prerequisites
- **Allow SERP approval later in the process**
- **Delete requirements for Ecology “approval” to apply, but establish a timeframe for approval**
- **Apply to SWFs, too, or specify it’s only for WWFs**
- **Delete section from WAC 173-95A because facilities can only apply for loans, not Centennial grants**
- **Consider TIB’s allowance to apply for multiple years of related projects at once**
  - Knowing in advance about projects could help predict demand & cash flow modeling and provide some degree of funding certainty for applicants



DEPARTMENT OF  
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# NEXT STEPS?