



## **Local Government Loan Programs for On-Site Sewage System Repair and Replacement**

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Using the Washington State Pollution  
Control Revolving Fund and Centennial  
Clean Water Fund



DEPARTMENT OF  
**ECOLOGY**  
State of Washington

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# **Local Government Loan Programs for On-Site Sewage System Repair and Replacement**

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**Using the Washington State Water Pollution Control  
Revolving Fund and Centennial Clean Water Fund**

*by*

*Financial Management Section*

Water Quality Program  
Washington State Department of Ecology  
Olympia, Washington

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# Table of Contents

	<u>Page</u>
The Problem.....	1
The SRF and Centennial Solution.....	1
Setting up a Local Loan Program .....	2
How to Apply for SRF and Centennial Funding .....	4
The Application Cycle .....	4
Keys to a Successful Application .....	4
SRF and Centennial Funding Results .....	5
For More Information .....	6

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# The Problem

Washington State has an estimated 800,000 on-site sewage systems (more than 500,000 of these are in the Puget Sound region). An on-site sewage system typically consists of a septic tank and a system to distribute the wastewater to the drain field for treatment in the soil. A healthy on-site sewage system treats the wastewater as it spreads downward and outward through the drain field, with the water eventually entering ground or surface water. With a failing system, this treatment process no longer works effectively, and untreated wastewater may back up into the home, puddle on the ground above the drain field, or enter ground or surface water.

Many on-site sewage systems (OSS) were installed before Washington adopted minimum standards in 1974. Even with a low failure rate (say two to three percent), thousands of OSS are releasing poorly treated sewage and wastewater into our streams, ground water, or Puget Sound. Because wastewater can contain bacteria, viruses, protozoa, and parasites harmful to people, these failures can pose hazards to not just overall water quality, but also to public health.

OSS failures threaten Washington's drinking water supply, which primarily comes from ground water. Failures also hurt the state's multi-million dollar per year shellfish industry. Fecal coliform bacteria from failing systems can be detected by the state Department of Health (DOH) when it surveys commercial shellfish growing areas. When bacteria levels are too high, DOH can close a growing area to harvest.

Repairing or replacing an on-site sewage system is not cheap. In western Washington, a replacement can cost \$15,000 or more for a conventional system; the cost for an alternative system can be substantially more. Since many of the soils in this part of the state require the use of alternative systems, property owners can find themselves facing a bill they may not be able to afford.

## The SRF and Centennial Solution

An on-site sewage system local loan program can help these property owners. Since the early 1990s, the Washington Department of Ecology (Ecology) has loaned money to local governments through the Water Pollution Control State Revolving Fund (SRF). Local governments use these funds in turn to establish low interest loan programs for property owners to repair or replace failing on-site sewage systems. Over the years, these funds have been made available to property owners unable to qualify for conventional loans, as well as to owners of marine waterfront property where failures might directly affect Puget Sound.

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*SRF loans can be used for:*

- Loans to property owners with failing OSS*
- Operating costs of a local loan program*

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*SRF loans must be paid back to Ecology*

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*SRF loans are a general obligation of the borrowing local government*

The program has evolved since Ecology's first loan to Jefferson County; as a result of a rule change in 2007, Ecology is now able to award Centennial Clean Water Program (Centennial)

grant funds to local governments to help defray some of the administrative costs and lending risks for these programs. Counties and cities can use the grant funds to cover operating costs for the program, small grants to property owners, loans to owners of failing systems, and to establish a loan loss reserve account to cover their obligations if a property owner defaults on a loan.

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*Centennial grants can be used for:*

- Loans to low-income property owners with failing OSS*
  - Grants to low-income property owners with failing OSS*
  - Operating costs of a local loan program*
  - A loan loss reserve account (up to 10% of loans made)*
- 

Ecology requires local governments awarded a Centennial grant for a local loan program to provide a 50 percent match.

The match is typically an SRF loan for at least as much as the Centennial grant (and usually much more, since a given level of operating costs can support a much larger loan pool).

## Setting up a Local Loan Program

A local loan program has a number of parts that make up the whole. The success of the program depends on each of these parts working well, and working well together:

- *Marketing.* Most local loan programs rely heavily on two key groups to get the word out about the program:
  - The local health department enforcement staff.
  - The OSS professionals in the community—that is, the people who pump septic tanks and install systems.

One or both of these groups find themselves involved when something goes wrong with a property owners OSS. And successful programs depend on both groups to let property owners know about the availability and advantages of the program. Local banks and real estate professionals can be helpful, too, by providing information to people either buying or selling properties with failing systems.

- *Loan administration.* To run a local loan program, the community needs to be able to:
  - Accept loan applications.
  - Review and evaluate those applications, including running credit reports.
  - Set up the formal loan documents. (for example, promissory note, deed of trust)
  - Process loan repayments from the property owner.
  - (Optional) Set up and track a loan-loss reserve account.

Communities can handle these tasks several ways, working with outside organizations or financial institutions, or doing everything in-house. Many of the tasks listed on the following page can be completed by either internal or external partners to the program.

- *Maintenance of on-site sewage systems.* Once property owners have invested in the repair or replacement of their OSS, they can usually be easily persuaded to invest the small amount of time and money to maintain the system to prolong its life. Most of the communities currently offering local loan programs also have an active program to encourage OSS maintenance. Those programs include Septic 101 classes, an active septic survey program, and other public outreach efforts.





It all starts with a **failing OSS**. The failure might be discovered by the property owner, a septic pumper, the Local Health Jurisdiction (LHJ), or some other person.



The property owner will look into fixing the system and learn the cost. The property owner may have the means to fund the repair with a conventional bank loan or personal resources. If the owner does not, the bank, the septic system professional, or other resource may provide **information about the local loan program**.



If the property owner decides to seek a loan from the program, a number of things happen next. These include:

- Verifying the system failure (usually the LHJ).
- Verifying eligibility of the system (that it's a small residential or commercial on-site system) (usually the LHJ).
- Sending the property owner a loan application.
- Obtaining a design for the repair/replacement (property owner and designer).
- Getting the design approved (usually the LHJ).
- Submitting the application (the property owner).
- Evaluating the application; obtaining a credit report and title insurance.
- Making the OSS repair (property owner and contractors).
- Paying the contractors and reimbursing the property owner for design costs--all from the loan.
- Finalizing the loan paperwork: promissory note; deed of trust (or other security).
- Preparing a collection contract (optional).
- Recording the loan documents.

The organization that leads the OSS local loan program can take on all of the roles described in the section above, or it can work with other public and private partners. These might be a local financial institution (bank, credit union, community development financial institution<sup>1</sup>), another public entity (a different local government, district, or department), or a community action

<sup>1</sup> Craft3 (formerly Enterprise Cascadia) is one example. That community development financial institution (not a bank) handles the Hood Canal OSS program for Clallam, Jefferson, Kitsap, and Mason Counties.

organization (typically a private, non-profit group that provides services to low-income households).

## How to Apply for SRF and Centennial Funding

### The application cycle

Ecology's Water Quality Program funds on-site septic system repair and replacement programs through its integrated funding cycle. The SRF, Centennial Clean Water Program, and the federal Section 319 Non-point Source Grant Program share this combined funding cycle process. The innovative, streamlined approach allows the Water Quality Program to ensure that local agencies receive the most appropriate funding for their projects.

Applications are usually accepted in the fall of each year. Awards are made based on legislative appropriation in the following legislative session.

Applications and guidelines are available at Ecology's annual funding workshops, on Ecology's website, or by contacting Water Quality Program staff. (See the For More Information section at the end of this document for details.)

### Keys to a successful application

As you are planning your local loan program and preparing to apply for SRF and Centennial funding, keep these tips in mind:

- To show the *water quality problem* that your program will solve, be prepared with sampling data (whether from a Total Maximum Daily Loads (TMDL) or other water quality monitoring program), in particular, fecal coliform data. If OSS failures are affecting shellfish growing areas, document those effects.
- Use the OSS failure information and household income data to estimate the *demand for the program*. Loan programs are more successful (that is, make more loans) if the community has a fairly high number of households that are unlikely to qualify for a conventional bank loan to repair failing systems.
- To demonstrate the *water quality benefit* of your proposed program, be prepared to back up claims of on-site sewage system failure rates (or numbers of failures). This information typically comes from permitting data or the results of septic survey projects.
- Your application will score higher on the *readiness-to-proceed* scale if you get the key players on board before you apply. So, determine at least the framework of your loan program—who will be doing each of the loan program operation tasks—before you apply.

## SRF and Centennial Funding Results

The Water Quality Program has disbursed more than \$11 million in SRF funds for repair and replacement of failing OSS since the first award in FY1990. Ecology has awarded another \$7 million in Centennial grants for these programs since FY2007. Active programs as of June of 2012 are using approximately \$9 million in combined grant, loan, and special funding for ten different local loan programs:

<b>Ecology's Water Quality Program Active OSS Repair Programs as of June 2012</b>			
<b>Program</b>	<b>SRF Loan</b>	<b>Centennial Grant</b>	<b>Special Funding</b>
Hood Canal Regional Septic Repair Loan Program			\$750,000
Island County On-site Financial Assistance program	\$2,000,000	\$500,000	\$0
Northeast Tri County Health District	\$416,667	\$346,490	\$0
Olympia Septic Connection Assistance Loan Program	\$250,000	\$0	\$0
Pacific County On-Site Financial Repair Program	\$500,000	\$0	\$0
Pierce County Septic Repair Grant and Loan Program	\$500,000	\$250,000	\$0
San Juan County On-Site Repair Financial Assistance	\$300,000 <sup>2</sup>	\$0	\$0
Skagit County Local Loan Fund	\$2,250,000 <sup>3</sup>	\$0	\$0
Thurston On-Site Financial Assistance program 2012	\$250,000	\$183,269	\$0
Whatcom County Sewage System Loan Program <sup>4</sup>	\$0	\$500,000	\$0
<b>Totals:</b>	<b>\$6,466,667</b>	<b>\$1,779,759</b>	<b>\$750,000</b>

<sup>2</sup> San Juan County's loan is 50 percent forgivable principal under the Green Project Reserves set aside.

<sup>3</sup> Skagit County has two current loans; \$1,750,000 from FY2010 and \$500,000 that is a 50 percent forgivable principal loan from FY2011.

<sup>4</sup> Whatcom County's program is a pilot program using Centennial grant funds matched by loans to property owners through a private financial institution contracted by the County to provide low-interest loans.

## For More Information

Grant and loan applications, guidelines, or other information is available on Ecology's website:

<http://www.ecy.wa.gov/programs/wq/funding/funding.html>

Ecology's OSS program coordinator is:

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