



Focus on Grants and Loans

from Ecology's Water Quality Program, Financial Management Section

Funds for Water Quality Improvement and Protection

Overview

The Washington State Department of Ecology's Water Quality Program administers three state and federal financial and technical assistance programs to improve and protect water quality. Each year, the Department of Ecology Water Quality Program accepts applications from cities, counties, tribes, conservation districts, and some qualified non-profit organizations seeking financial help to improve or protect water quality in their communities. Grants and loans are made available through a competitive rating process. To make the process simpler and more efficient for the applicants and the department, Ecology allows applicants to submit just one application for all of the possible funding sources.

For the fiscal year 2006 (FY06) funding cycle, Ecology received 104 applications, amounting to more than \$151 million worth of requests. As in past years, there isn't enough money for all of the eligible projects, so the department has ranked the projects based on the highest-priority water quality needs. Governor Locke's biennial budget proposal would provide \$91,646,172, which would allow 66 of the proposed projects to receive funding in FY06. Actual funding levels set by the 2005 Legislature will determine how many projects on the ranked list eventually are offered financial assistance. The 66 projects include grant and/or loan requests for 21 wastewater infrastructure projects and 45 nonpoint pollution activity projects. Projects include the upgrading of aging wastewater treatment infrastructure; planning, design, and construction of new wastewater treatment infrastructure; stormwater control and treatment; nonpoint pollution abatement and stream restoration activities; and water quality education and outreach.

Lists of projects that received funding offers in past fiscal years and other program information are available at the Water Quality Program web site at:

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

Water Quality Funding Sources and Process

The Department of Ecology administers three sources of funding for water quality projects.

1. Centennial Clean Water Grant Program (Centennial), which receives money from the Water Quality Account (cigarette tax dedicated to water quality) and the State Building Construction Account (bonds).
2. Federal Clean Water Act Section 319 Nonpoint-Source Grant Program (Section 319), which is allocated through the federal General Fund - Environmental Protection Agency (EPA) funds.
3. Washington State Water Pollution Control Revolving Fund Loan Program (SRF), which is supported by a federal EPA Capitalization grant, state match, and interest and loan repayments.

The state Legislature appropriates funds for the Centennial and SRF programs through the capital budget and for the Section 319 program through Ecology's operating budget.

Ecology manages the annual application and funding process through a nationally recognized integrated funding approach. The three water quality grant and loan programs are managed as one: there is one combined funding cycle, one application form and submittal period, and a combined funding offer list. This combined process provides applicants with improved funding opportunity with less paperwork and improves Ecology's efficiency and effectiveness in awarding grants and loans.

Sometimes the Legislature appropriates a portion of funds from these accounts for projects not on the ranked priority list, which then reduces the amount available for the ranked proposals. Until the Legislature makes a final appropriation in the spring of 2005, the 66 projects identified for funding in the FY06 draft priority list should be viewed only as a preliminarily proposal.

Water Quality Financial Assistance Program Goals and Objectives

The water quality financial assistance program has evolved over many years, with influence from legislative and statutory directives; changing water quality priorities and standards; Ecology policy, procedure and guidance; and input on funding processes from clients and stakeholders. The water quality financial assistance program's principal goals and objectives include:

- Ensuring available funds are awarded to the highest water quality and public health priorities.
- Addressing environmental investment and water quality outcomes.
- Providing low interest loan funds for rate-based water pollution control infrastructure.
- Awarding grant funds for water quality activities to address diffuse pollutants (nonpoint pollution),
- Assisting small financially distressed communities with grants and low-interest loans for water pollution control infrastructure projects.
- Providing grant and loan recipients with administrative and technical assistance to ensure effective management of water quality projects.
- Providing financial and technical assistance in partnership with other state and federal funding agencies.

Funding Priorities and Ranking Process

Priority projects include modernizing aging wastewater treatment facilities, reclaiming and reusing waste water, implementing water quality cleanup plans required under federal law and keeping pollution out of streams and aquifers. Another key priority is the support of small, financially distressed communities that cannot afford to adequately protect their water quality.

Ecology staff evaluate the water quality project proposals received during the application period, consider recommendations from other state agencies, assign points and develop a statewide priority list in ranked order. The principal ranking criteria include:

- The overall water quality and public health problem and the proposed solution.
- Water quality impairments to designated uses (drinking water, aquatic habitat, shellfish, recreation).
- Water quality goals and the measures of success.
- Local government initiatives to ensure success.
- State or federal mandates that the project addresses.
- The project's readiness to proceed (e.g., technical prerequisites).
- Local priority-setting process—ranking by local watershed agencies/groups.

After reviewing and scoring the projects based on the merits of the proposal, Ecology places them on an offer list in order of priority. If a project is in the fundable portion of the offer list, Ecology identifies the most appropriate funding source.

Types of Financial Assistance

Applicants that are proposed for funding may receive the following:

- 75 percent grants for projects that do not have a rate base to help cover the cost (e.g., stream restoration and other nonpoint pollution projects). Maximum grant amounts are \$250,000 or up to \$500,000 of the total eligible cost, depending on the type of local matching funds provided for the project.
- 100 percent low-interest loans for facilities and activities that are supported by a local rate base (e.g., wastewater and stormwater infrastructure, low impact irrigation, on-site septic system repair and replacement).
- Up to a 50 percent grant and 50 percent zero-interest loan (plus an unemployment differential, if applicable) for treatment plants or other water pollution control infrastructure projects in small, financially disadvantaged communities.

Financial Hardship Assistance

For communities that qualify for financial hardship, Ecology may offer a zero interest loan or grant funds of up to \$5 million with an equal amount of loan funds at zero percent with a 20-year term.

Applicants can request assessment for financial hardship at the time they submit their application materials. Applicants must demonstrate that the project will cause an excessive financial burden to the existing residential ratepayer. Financial hardship has been defined, by rule, as sewer use rates resulting from project construction in excess of 1.5 percent of median household income. An additional unemployment differential may also be considered if unemployment rates in the community are in excess of the state of Washington average.

Client and Stakeholder Involvement

In an effort to provide effective and efficient administration of state and federal grant and loan programs, the Water Quality Program has established a Financial Assistance Council to provide advice and guidance on funding processes and emerging issues. The Council is comprised of representatives from cities, counties, tribes, conservation districts, special purpose districts, environmental groups, and state and federal agencies. The council is not mandated in state law but was formed by Ecology to help ensure that the process of administering state and federal grants and loans is transparent and is supported by Ecology's clients and stakeholders.

Ongoing and Emerging Funding Needs

There are a number of ongoing and emerging issues that drive Washington State water quality funding needs. The Water Quality Program works with its clients and stakeholders to help ensure that the financial assistance programs are meeting these changing and challenging water quality needs:

- Aging wastewater treatment infrastructure.
- Water quality cleanup plans required under the federal Clean Water Act.
- Advanced wastewater treatment needed to meet designated uses of the receiving water.
- Reclamation/reuse of wastewater.
- Stormwater control and treatment.

- Nonpoint pollution from agricultural, forested, and urban areas.
- Failing on-site septic systems.
- Needs of small financially distressed communities.

Needs Vs. Funds Available

During the FY06 funds application cycle, Ecology received 104 applications totaling over \$151 million, far exceeding the anticipated funding level that is proposed in Governor Locke's Biennial Capital Budget. The same trend has been evident over the past two biennia, with the demand exceeding funds appropriated by approximately 35 percent. In addition, Ecology recently documented over \$4 billion of water quality needs for the state of Washington in support of the Environmental Protection Agency's Clean Water Needs Survey prepared for Congress.

Due to the decrease of grant funds available from the Water Quality Account over the last several biennia, Ecology is now able to offer only low interest loans to local governments for water pollution control infrastructure, unless a community can demonstrate that the project would cause a financial hardship to the community.

Funding Cycle Schedule – Dates to Remember

The following provides a summary of the annual Water Quality Program funding cycle. Approximate time frames are provided here. Specifics for each year's funding cycle can be accessed on the Water Quality Programs web site at <http://www.ecy.wa.gov/programs/wq/links/funding.html>.

WATER QUALITY FINANCIAL ASSISTANCE FUNDING CYCLE SCHEDULE	
Time Period	Event
September – October	Application Submittal Period (prerequisites due by closing date)
November – December	Application Rating and Ranking, Draft Priority List Developed
	<ul style="list-style-type: none"> ➤ Draft Priority List Submitted to the Legislature in Early January ➤ Public Information Meeting on Draft Priority List
January – April	Legislative Session: Water Quality Budget Appropriations Occur
May – June	Draft Offer and Applicant List Developed and Published
	<ul style="list-style-type: none"> ➤ Public Meeting and 30-Day Public Comment Period
June – July	Final Offer and Application List Developed and Published
	<ul style="list-style-type: none"> ➤ New Funding Agreements Can be Developed

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