



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 (Ecology) Water Quality Program administers three state and federal financial and technical assistance programs to improve and protect water quality. Each year, Ecology's 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. Ecology makes grants and loans 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 one application for all of the possible funding sources.

For the fiscal year 2007 (FY 2007) funding cycle, Ecology received 88 applications, requesting more than \$187 million in funding. As in past years, there is not enough money for all of the eligible projects, so the department ranked the projects based on the highest-priority water quality needs. Using the 2005-07 Biennial Budget and the 2006 Supplemental Budget, Ecology proposed to fund 49 projects totaling more than \$100 million. 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. Ecology developed and implemented a special program targeting on-site sewage system repair and replacement in the Puget Sound region using a combination of grant and loan funds prioritized by the Governor and funded in the 2006 Supplemental Budget to address this important water quality problem.

The 2005-07 Biennial Budget and the 2006 Supplemental Budget also provided additional grant funding for two special water quality grant programs:

- \$2.7 million to address statewide Phase II municipal stormwater planning needs for cities and counties to protect water quality from polluted urban stormwater runoff.
- \$2.5 million for low impact development projects in the Puget Sound region to reduce the quantity and improve the quality of urban runoff.

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/funding/funding.html>

Water Quality funding sources and process

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 an improved funding opportunity with less paperwork and improves Ecology's efficiency and effectiveness in awarding grants and loans.

Currently, Ecology is reviewing and revising the rules that direct the management and process for the water quality financial assistance program. The rule revision process will be complete in July 2007 and may result in some modifications to the grant and loan financial assistance process and funding distribution criteria. The revision will take effect for the Fiscal Year 2009 funding cycle.

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, such as wastewater treatment facilities and stormwater treatment and management.
- Awarding grant funds for water quality activities to address diffuse pollutants (nonpoint pollution, or pollution that comes from people's activities).
- 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

Ecology places priority on projects that:

- Modernize aging wastewater treatment facilities.
- Reclaim and reuse waste water
- Implement water quality cleanup plans required under federal law and keeping pollution out of streams and aquifers.

In addition, Ecology places priority on supporting 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.
- 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. Available funds are streamed to the highest ranking projects, moving down the list until funds are exhausted. Ecology identifies the most appropriate funding source for each project based on the type of project and funding distribution criteria outlined in the funding program statutes and rules.

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 (for example, 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 (for wastewater and stormwater infrastructure, irrigation efficiencies, on-site septic system repair and replacement).
- Up to a 50 percent grant (plus an unemployment differential, if applicable) and 50 percent zero-interest loan 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-percent interest, 20-year term loan or grant funds of up to \$5 million with an equal amount of loan funds.

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.
- Water quality infrastructure needs of small financially distressed communities.

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.

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 are available on the Water Quality Program's 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
➤	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
➤	Public Meeting and 30-Day Public Comment Period
July	Final Offer and Application List Developed and Published
➤	New Funding Agreements Can be Developed

Contact information:

Steve Carley, Section Manager
 Financial Management Section
 Water Quality Program
 Department of Ecology
 360-407-6572
 E-mail: stca461@ecy.wa.gov

Jeff Nejedly, Unit Supervisor
 Financial Management Section
 Water Quality Program Department of Ecology
 360-407-6566
 E-mail: jnej461@ecy.wa.gov

If you need this publication in an alternate format, please call the Water Quality Program at 360-407-6502. Persons with hearing loss can call 711 for Washington Relay Service. Persons with a speech disability can call 877-833-6341.