Legislative Proposal:

Keep Washington's clean water financial assistance on track

The problem

The Department of Ecology (Ecology) faces a deficit in the next few years in the administrative fund it uses to manage the Water Pollution Control Revolving Fund (Revolving Fund) loan program. This poses a risk to Ecology's ability to effectively manage the Revolving Fund loan program, which passes along essential financing to local governments for infrastructure projects that protect clean water in the state.

The Revolving Fund loan program was established by the Clean Water Act and is funded by an annual Environmental Protection Agency (EPA) capitalization grant based on congressional appropriation, state matching funds, and principal and interest repayments on past State Revolving Fund loans.

Ecology is allowed to use up to four percent of the capitalization grant to cover its costs to administer the Revolving Fund. The Clean Water Act does not allow Ecology to use any repayments of principal and interest to administer the Revolving Fund.

If current trends remain unchanged, Ecology anticipates it will experience a deficit in its Revolving Fund administrative funds by state fiscal year 2014. This shortfall is based on the reduction or elimination of federal capitalization grants, which Congress scheduled to phase out by state fiscal year 2014.

The Revolving Fund is a long-standing, successful program that provides low-interest loans and forgivable principal loans (money that does not have to be paid back) to local governments and tribes. The funding pays for wastewater treatment construction projects, nonpoint source pollution control projects, and "green" projects. Ecology manages this program in accordance with federal regulations and guidelines, as well as state statute and rule.

Managing the Revolving Fund requires a high level of financial and engineering expertise. Ecology engineers provide technical assistance

MORE INFORMATION

Accounting for the state's costs to maintain a financially sound Water Pollution Control Revolving Fund protects clean water in our growing state for current and future generations.

Water Quality Program Financial Assistance:
www.ecy.wa.gov/programs/wq/funding/funding.html

The Revolving Fund helps local governments pay for key infrastructure, such as wastewater treatment plants. (Ecology photo)

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and oversight, review and approval of engineering documents, facility site inspections and management of complicated facility projects.

Ecology also provides strategic financial planning, and performs day-to-day work associated with managing low-interest loans for high-priority water quality projects, including projects that assist financially distressed communities.

A deficit in administrative funds will increase if we don't take action. A deficit could occur this fiscal year if current proposals in Congress are enacted to significantly reduce or end federal capitalization used to support to the Revolving Fund loan program.

The solution

Pass legislation that gives Ecology statutory authority to charge loan administration fees that pay for its costs to administer the Revolving Fund loan program. The approach protects Washington against the anticipated deficit in federal funds and maintains a key loan program that protects clean water in Washington.

The fees would not increase the debt service (cost to the borrowers) beyond what the borrower would otherwise already pay.

Currently, the loan debt service comprises an interest rate that is 60 percent of the market rate for tax-exempt municipal bonds. To prevent additional costs to borrowers, Ecology will lower the interest rate on loans and add a loan administration fee. The interest charged and the administration fee together will comprise the debt service of the loan and will not exceed 60 percent of the rate for tax exempt municipal bonds.

The administration account would be capped at four percent of the amount loaned from the Revolving Fund. Ecology would receive no more than four percent of Revolving Fund loan amount to administer the Revolving Fund. Ecology would evaluate the account each biennium, and any amount up to the four percent cap not needed for administration would be returned to the Revolving Fund for water quality improvement projects.

How it will work

- The proposed fee will be based on the declining balance of the loans in repayment. It will be calculated at 0.5 percent of the outstanding balance on each State Revolving Fund loan and will be due to Ecology with each loan repayment made by the borrower for the life of the loan.

- The fee will be implemented retroactively to cover all loans awarded as of July 1, 2007.

How it will benefit Washington

Eighty five percent of states charge loan fees so they can manage their Revolving Funds. Keeping the Revolving Fund loan program adequately supported—and funded—protects an important federal funding source that allows local governments and tribes to address water infrastructure improvements that protect public and environmental health. Since the proposed fees will not increase loan costs for local governments and tribes, the move helps economic recovery efforts on the state and local level.