



FY 2005-2007 On-site Septic System Repair and Replacement Financial Assistance Program

**Washington State
Water Pollution Control Revolving Fund
and Centennial Clean Water Program**

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Centennial Clean Water Program**

Water Quality Program
Washington State Department of Ecology
Olympia, Washington

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Report Summary

The Washington State Department of Ecology (Ecology) has offered low-interest loans through the Washington State Water Pollution Control Revolving Fund to eligible entities for on-site sewage system repair and replacement for nearly 20 years.

In the 2005-2007 Biennial Capital Budget, the Washington State Legislature appropriated \$7.5 million for loan and grant funds to address failing and poorly functioning on-site sewage systems in Hood Canal and the greater Puget Sound watershed.

The directive to Ecology was to provide a financial assistance program that:

- Addressed poorly functioning on-site sewage systems.
- Provided support to financially distressed homeowners for sewage system repairs or replacements.
- Provided assistance to local governments for the planning, design, implementation, and management of local OSS financial assistance programs.

Ecology administered the loan (Washington State Water Pollution Control Revolving Fund) and grant (Centennial Clean Water) funds awarded to local governments. The local governments, in turn, provided grants and low-interest loans to homeowners and small businesses with failing on-site sewage systems.

This report provides an overview of planning and implementation of the Puget Sound regional programs. Additionally, the report briefly summarizes the program outcomes.

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Background

For nearly 20 years the Ecology has provided financial assistance to local governments through the Washington State Water Pollution Control Revolving Fund (Revolving Fund) for the purpose of establishing on-site sewage system local loan programs. With these funds, local governments statewide have helped residents and small business owners, through low-interest loans, with the repair or replacement of failing or poorly functioning on-site sewage systems (OSS).

Through these efforts, Ecology provided nearly \$10 million in financial assistance to 15 local governments, for the repair and replacement of over 500 faulty OSS.

Puget Sound Initiative

Fiscal Year 2005-2007 investment

In her *Puget Sound Initiative 2007*¹, Governor Christine Gregoire listed as a priority identifying and controlling pollution from failing on-site systems in the Puget Sound watershed.

To support the priority established in the *Puget Sound Initiative 2007*, the Washington State Legislature appropriated up to \$7.5 million in the 2005-07 Biennial Capital Budget and 2006 Supplemental Capital Budget through the Water Pollution Control State Revolving Fund (Revolving Fund) and the Centennial Clean Water Program (Centennial). Ecology distributed the \$7.5 million this way:

- \$1,000,000 Revolving Fund loans available for the three Hood Canal counties: Mason, Kitsap, and Jefferson (2005-07 Biennium Budget).
- \$5,000,000 Revolving Fund loans available for the Puget Sound region, 12 counties and tribal governments (2006 Supplemental Budget).
- \$1,000,000 Centennial grants to be used by Puget Sound local governments in conjunction with state Revolving Fund loans, to establish or expand local loan programs, and to aide financially distressed homeowners (2006 Supplemental Budget).
- \$ 500,000 Centennial grant funds available, in conjunction with state Revolving Fund loans, to aide Puget Sound local governments in planning, implementing, and administering local on-site sewage system financial assistance programs (2006 Supplemental Budget).

¹ In December 2005, Governor Gregoire and the Legislature launched the Puget Sound Initiative, a comprehensive effort by local, state, federal and tribal governments, business, agriculture and environmental communities, scientists, and the public to restore, protect and preserve Sound by 2020.

As directed by the Legislature, the purpose of the OSS Financial Assistance Program is to:

1. Provide grants and low-interest loans to the 12 Puget Sound counties and tribal governments.
2. Establish new or expand existing OSS repair and replacement local loan programs.
3. Provide grant dollars to assist financially distressed homeowners repair or replace failing OSS.
4. Provide grant dollars to local government recipients to develop, implement, and administer each local loan program.

Program development

Ecology collaborated with the Environmental Protection Agency (EPA), Puget Sound Action Team (PSAT), the Department of Health (DOH), county and tribal governments, and the Hood Canal Coordinating Council (HCCC) to develop the Puget Sound-wide OSS financial assistance program. Discussions during stakeholder workgroup meetings focused on the development of an effective and efficient financial assistance program. Specific topics included:

- Residential financial hardship eligibility criteria.
- Equitable loan and grant distribution to local governments.
- Loan and grant ceiling amounts.
- Allowing for adjustable Revolving Fund repayment interest rates for loans directed towards financially distressed homeowners.
- Establishment of the OSS application and award timeline.

The following table outlines the stakeholder workgroup recommendations and how program elements addressed them:

Table 1. Workgroup Recommendations and Program Elements

Workgroup Recommendation	Program Element
Establish grant and loan ceiling amounts to accommodate potential requests from the 12 Puget Sound counties and tribal governments.	Initial grant and loan ceiling amounts were adjusted based on program demand.
Base <i>Hardship</i> on county Median Household Income.	<i>Hardship</i> was based on county Median Household Income.
Develop a Revolving Fund interest rate repayment structure to support local government efforts to provide financing opportunities to all homeowners.	Initial interest rates set at 1.3 percent for a five-year repayment term and 2.6 percent for six-20 year repayment term under the Fiscal Year 2007 (FY2007) funding cycle.
Adjust interest rates at project completion based on a rate structure that identifies the amount of local loans provided to financially distressed homeowners.	Ecology calculates a blended interested rate at the end of the project that reflects the proportion of Revolving Fund dollars provided to low-income homeowners.
Provide loans to assist small commercial enterprises to rehabilitate on-site sewage systems.	Funding Guidelines allowed small commercial enterprises to participate in the loan program.

Workgroup Recommendation	Program Element
Allow local governments to establish a dedicated, revolving loan-loss reserve account to offset the risk of homeowner loan defaults.	Guidelines allowed Recipients to establish and maintain a revolving loan-loss reserve account using Centennial grant funds. Up to ten percent of eligible expenses for individual system repairs and replacements could be placed in a dedicated reserve account to offset the risk of homeowner loan default.

Application period and evaluation criteria

Because this program was on a fast track to award grant and loan money to local governments for high priority projects, Ecology scheduled the application period for August 23, 2006, through September 29, 2006. The *Final Offer and Applicant List* was available on October 16, 2006.

Ecology staff evaluated projects, and PSAT and DOH reviewers provided recommendations on the application rating and ranking. Evaluators scored projects based on the application information submitted by the local governments.

The following criteria and weighting were used to evaluate and score project proposals.

- *Water quality protection, restoration, and other positive impacts (30%)*
Applicants needed to show how the project addressed the local OSS problems. The proposal needed to provide a detailed explanation on the immediate risks within the project area associated with failing sewage systems.
- *Overall quality of project proposed and likelihood of success (20%)*
Applicants needed to identify outcomes and milestones and explain the environmental benefits the project would achieve. Proposals were required to have a clear scope of work and project plan and to identify the project team.
- *Local efforts and continued commitment (20%)*
Proposals needed to identify community outreach measures. Local partnerships, information sharing, and long term program planning were important components of a well rounded application.
- *Readiness to proceed (30%)*
Applicants needed to demonstrate their ability to move forward and implement the project and needed to include in the project proposal the most recent local OSS survey information, provide information on the dates that surveys were conducted, the current survey status, and other planned surveys.

Use of a private loan administrator

In addition to developing the Puget Sound-wide program, Ecology staff worked with staff at Kitsap County and ShoreBank Enterprise Cascadia (Craft3)² to conceptualize and develop a Hood Canal Pilot Program. This innovative public-private partnership is based on an inter-local

² ShoreBank Enterprise Cascadia became Enterprise Cascadia in 2010 and changed its name in 2011 to Craft 3. It is a community development financial institution.

agreement between Jefferson, Mason, and Kitsap Counties and includes the Skokomish and S'Klallam tribal governments. The consortium of local and tribal governments use Craft3, a private non-profit community development lending institution, as a provider for the *one stop* OSS financial assistance program in the Hood Canal region.

Program implementation

Ecology received and processed seven applications for the program, with combined loan and grant requests totaling \$7,643,500. Kitsap County, *on behalf of Mason, Jefferson, and Kitsap Counties*, accepted only grant funds and did not accept the loan funds offered. The applications were reviewed and rated by three Ecology evaluators and two external evaluators from PSAT and DOH. Initial funding ceiling amounts of \$250,000 for Revolving Fund loans and \$50,000 for Centennial grants were raised, based on the added availability of funding as a result of receiving fewer than expected applications. All seven applicants requested additional funding to meet program needs.

The final grant and loan awards are summarized in the table that follows:

Table 2. Fiscal Year 2007 (FY2007) On-site Septic System Repair and Replacement Program Grant and Loan Recipients

Recipient	State Revolving Loan Fund	Centennial Clean Water Program	Total Project Amount
Island County	\$200,000	\$121,000	\$321,000
Kitsap County – <i>On Behalf of Mason, Jefferson and Kitsap Counties</i>	\$0	\$601,807	\$601,807
Pierce County	\$250,000	\$183,735	\$433,735
Skagit County	\$2,000,000	\$409,723	\$2,409,723
Thurston County	\$250,000	\$183,735	\$433,735
Totals	\$2,700,000	\$1,500,000	\$4,200,000

Fiscal Year 2008 investment

Subsequent to the 2005-07 Capital Budget and 2006 Supplemental Budget, ShoreBank Enterprise Cascadia (now Craft3) received private grants from the Gates and Russell Family Foundations for the Hood Canal On-site Septic Loan Program. The funds were matched by the 2007 Legislature in *Engrossed Substitute House Bill 1092: Section 3039*. The 2007 Legislature appropriated \$3,000,000 to support the Hood Canal pilot project and establish a unique Public-Private partnership for on-site sewage system repair and replacement in Hood Canal.

Ecology negotiated an agreement with Kitsap County as the primary public entity of the Public-Private Partnership to implement the Fiscal Year 2008 (FY 2008) proviso. Kitsap County coordinates the administration of the Centennial grant agreements for the three Hood Canal counties, while Craft3 manages overall program marketing, loan application review, processing,

repayment, and long-term operation and maintenance oversight of the repaired on-site sewage systems.

Program outcomes

Ecology negotiated grant and loan agreements for all program participants by June 2007. Local government recipients of the on-site sewage system funding ranged from new programs to established, functioning programs.

Pierce County established a new loan program, shaped to meet the needs of local homeowners. The Public Works and Utilities –Water Programs (Surface Water) teamed with the county’s Health Department and Department of Community Services-Housing Programs. The county’s Health Department verifies homeowner septic failures, communicates this information to the Surface Water group, and provides education and outreach to septic system owners. The county’s Housing Programs manages the financial review and underwriting of applicants and submits the information and recommendations regarding application review to the Surface Water group. The county’s Surface Water group provides overall management of the grant and loan agreements with Ecology, reviews septic owner applications for environmental impacts on surface water quality, and provides final approval of septic repair applications prior to disbursing funds.

Established programs, such as the On-site Septic System Local Loan Program projects in Skagit, Island, and Thurston counties continue to direct efforts toward priority marine shoreline OSS failures that directly impact Puget Sound. Furthermore, the grant awards available for financial hardship have provided the counties with an additional incentive and marketing tool that continues to attract OSS owner inquiries and loan applications. These established local government programs continue to thrive due to the dedicated efforts of county staff.

Skagit County in particular is operating an established, well-run OSS loan program. In operation more than 15 years, this program has helped septic owners repair more than 400 faulty systems by making available over \$4.5 million in loans and grants. The local loan program is available to county homeowners and small business owners and managed through the county’s Planning and Development Services Department. The success of this program is a result of the collaborative efforts of county staff in Planning and Development Services and the Treasurer’s Office. Additionally, the county’s Health Department offers septic survey information and septic classes. While the county’s Health Department staff continue to educate OSS owners and provide the loan and grant information as part of the Septics 101 class, local newspapers have run complimentary articles on the financial assistance program. Furthermore, septic installers, pumpers, designers, and operation and maintenance professionals provide the grant and loan information when they meet with property owners on a site-by-site basis.

The pilot program in Hood Canal has been well received and successful. Local governments may offer this financing option using minimal staff resources without assuming the risks associated with these loans. By using Craft3³ as a private administrator of funds, counties reduce

³ ShoreBank Enterprise Cascadia became Enterprise Cascadia in 2010 and changed its name in 2011 to Craft 3. It is a community development financial institution.

their costs associated with program marketing, loan processing, and loan default risk. County staff can focus on septic system surveys and assessments, and then distribute marketing materials to OSS owners in need of financial assistance. The county staff also work closely with Craft3 staff and provide them with up-to-date septic system survey information. Information on this program can be found at www.craft3.org/Borrow/SepticLoans. Craft3 also wrote a report, *Hood Canal Regional Septic Loan Program Performance Assessment*, which provides an independent, comprehensive review of the first 18 months of the Hood Canal on-site sewage program.

Thurston County (\$250,000 SRF Loan; \$183,735 Centennial Grant)

Thurston County Public Health and Social Services, Environmental Health Division awarded 35 grants and closed 19 loans during the project period for this program. Thurston County administers its program entirely in-house. In total, Thurston County's On-site Financial Assistance Program funded repairs of 45 failing on-site sewage systems during the project period of March 15, 2007, to October 16, 2011. The average loan amount Thurston County made to citizens to repair failing on-site systems was \$13,160.00.

The cost of repairing failing systems or connecting to sewers is beyond the reach of many citizens. This program provided grants to 21 families whose gross, annual combined income was \$40,000.00 or less and loans to eight families whose gross annual combined income was less than 80 percent of Thurston County's median household income. These families would not otherwise have been able to replace failing on-site sewage systems. Those failed systems would have continued to pose a public health risk and to contribute to degraded surface and ground water quality in Thurston County.

Thurston County awarded 14 financial assistance packages (grant and loan together, or grant alone) to owners of marine waterfront properties. These 14 failed OSS would otherwise have not been replaced at all, or would not have been replaced in a timely manner. Thurston County made five loans and six grants for replacement of failing OSS in the Henderson Watershed Protection Area. In January 2010, 240 acres of tidelands were reopened to shellfish harvest in Henderson Inlet as a result of water quality improvements. Replacing failed on-site sewage systems is a significant contributor to water quality improvements.

Pierce County (\$250,000 SRF Loan; \$183,735 Centennial Grant)

Pierce County completed 21 on-site system repairs using the funding under the 2007 program. Septic repairs along the Wauna shoreline near Burley Lagoon helped lift a swimming restriction on the Purdy Sandspit (which hosts a County-owned public park) in July 2010.

Pierce County's program is a cooperative effort among Pierce County Surface Water Management (SWM), Tacoma-Pierce County Health Department (TPCHD) and Pierce County Community Development Corporation (CDC). The three groups have an Interagency Agreement that spells out the roles and responsibilities of each regarding the administration and funding of the program.

Skagit County (\$2,000,000 SRF Loan; \$409,723 Centennial Grant)

Skagit County helped complete 130 septic repairs using leveraged loan and grant funds. Fourteen of those projects funded repairs for low-income homeowners. A total of 58 repairs were made to properties with direct impact to salt water shorelines (46 repairs with grant and loan funding and 12 repairs with grant subsidy only). The high number of septic repairs with marine proximity reflects the concentrated efforts to identify and repair septic systems in the Samish and Skagit Bay areas.

Skagit County administers its grant/loan program in-house with cooperation between Skagit County Planning & Development Services and the Skagit County Treasurer.

Island County (\$200,000 SRF Loan; \$121,000 Centennial Grant)

Island County completed 13 on-site sewage system repairs using loan or grant/loan funds, and another nine repairs using solely grant funds. Island County administers its grant/loan program in cooperation with the Island County Health Department, Treasurer's Office, and Auditor's Office, and the Coupeville branch of Whidbey Island Bank. The bank handles processing for the deeds of trust and promissory notes (loan security) and repayment of loans by property owners.

Hood Canal (\$601,807 Centennial Grant)

This grant funding spawned a permanent lending mechanism built through a public/private partnership. Kitsap County served as the administrator for Jefferson and Mason Counties. Kitsap County contracted with ShoreBank Enterprise Cascadia⁴ (lender) for development and operation of the loan program. The lender established an advisory body which guided creation of program policies and procedures and provided oversight throughout the term of the project. The lender produced marketing materials used by local health professionals, environmental educators, and private sewage contractors for outreach to system owners.

Under the Hood Canal program, 40 malfunctioning OSS were repaired, replaced, or abandoned and connected to a public sewer system. These improvement loans combined funds from this grant and a private loan source. Significant efforts were made to provide funds to low income homeowners. The lender made 36 percent of the approved loans to homeowners with incomes below 60 percent of the median family income; 56 percent of the loans went to those with incomes under 80 percent of median family income.

Other program activities

Thurston County

The County publicized its program through advertisements and press releases to the local media twice each year. In addition, they:

- Held eight Septic Sense workshops each year.
- Conducted on-site sewage system dye testing projects in Nisqually Reach and Eld Inlet.

⁴ ShoreBank Enterprise Cascadia became Enterprise Cascadia in 2010 and changed its name in 2011 to Craft3. It is a community development financial institution.

- Initiated the new on-site sewage system maintenance and inspection program—the Henderson Watershed Protection Area program.
- Completed around 150 on-site sewage program enforcement officer contacts per year.
- Distributed existing program materials to local septic tank pumpers, installers, designers, and certified monitoring specialists for distribution to their customers.
- Did a direct mailing to owners of the three systems types targeted for upgrades.

Pierce County

Pierce County developed a “Fact Sheet” about the project and distributed it in an informational packet provided during sanitary survey work conducted by the Tacoma-Pierce County Health Department. The County promoted this project through display materials at community events, presentations, through news articles, notifications to local septic designers, and as part of a technical assistance program associated with a stormwater grant funded by Ecology to local Shellfish Districts.

Skagit County

The County continued to offer Septic 101 and 201 classes for county residents. Data showed that these classes provided a beneficial service to the public and increased knowledge and awareness.

Island County

The County marketed this program through the Island County Septic Pumpers and Sewage System Designer/Installers, local real estate contacts and financial institutions, and community social service organizations. The County also publicized its program through its own staff and their ongoing public education program addressing operation and maintenance of OSS.

Hood Canal

The lender produced marketing materials used by local health professionals, environmental educators, and private sewage contractors for outreach to system owners. In addition, the lender created a website that contains information and allows for completion of an on-line loan application.

The following table provides final data on the number of septic systems repaired or replaced, the total cost of repairs and replacements, the administrative cost of each program, and the amount dedicated to loan-loss reserve accounts.

Table 3. FY 2007 On-site Septic System Financial Assistance Program Results

<i>Puget Sound Program</i>						
	Grant Agreement Amount	Loan Agreement Amount	# OSS Repaired or Replaced	Cost of Repairs or Replacements	Program Administration	10% Loan Loss Reserve
Island County	\$ 121,000	\$ 200,000	22	\$ 289,585.29	\$ 13,500	\$ 10,701.49
Pierce County	\$ 183,735	\$ 250,000	21	\$ 399,342.73	\$ 34,392.27	\$ 0
Skagit County	\$ 409,723	\$2,000,000	130	\$2,155,619.04	\$ 62,998.95	\$191,098.96
Thurston County	\$ 183,735	\$ 250,000	45	\$ 382,123.66	\$ 32,280.83	\$ 0
Totals	\$ 898,193	\$2,700,000	218	\$3,226,670.72	\$ 143,172.05	\$201,800.45

<i>Hood Canal Pilot Program</i>						
	Grant Agreement Amount	Loan Agreement Amount	# OSS Repaired or Replaced	Cost of Repairs or Replacements	Program Administration	10% Loan Loss Reserve
Kitsap County	\$601,807	\$0	n/a	n/a	\$ 12,518.50	n/a
CRAFT3	n/a	n/a	40	\$ 421,624.17	\$ 85,946.92	\$ 81,717.44
Totals	\$601,807	\$0	40	\$ 421,624.17	\$ 98,465.42	\$ 81,717.44

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Lessons Learned

The major goals for the 2005-07 Biennial appropriations for an on-site septic system repair and replacement financial assistance program were: 1) reducing risk to human health, 2) improving water quality, and 3) improving the health of critical shellfish habitat. Since the beginning of these financial assistance programs, local governments in the Puget Sound watershed have repaired and replaced more than 600 failing or poorly functioning on-site sewage systems. Lessons learned through program development and implementation include:

- Local government OSS programs are time consuming and require a team approach. Successful programs rely on committed staff from multiple departments which provide overall loan administration and management.
- Some counties avoid these programs altogether due to the potential for loan default. To provide this program to homeowners in need means accepting loans with greater default risk. The community has to balance credit worthiness of the property owner/borrower and water quality improvement for the community.
- Marketing, on-site septic system education and outreach, and local health departments' Septic 101 classes have helped inform and educate the public of on-site septic operation and maintenance.
- Enforcement actions continue to be the catalyst that prompts homeowners with septic problems to find financial assistance to repair or replace their faulty septic system.
- There has been a significant increase in septic system repairs and replacements over the past two years with the establishment of alternative financial assistance packages. Homeowners facing enforcement actions have additional financial assistance options for repair and replacement of their failing septic systems.