Proposed Legislation:

Keep Washington's clean water financial assistance on track

The problem

The Department of Ecology (Ecology) faces a deficit in the 2013-15 biennium 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.

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, tribes, and special purpose districts. The funding pays for wastewater and stormwater facility 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.

Ecology is allowed to use up to four percent of the federal 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 in state fiscal year 2014. This shortfall is based on the reduction and potential elimination of federal capitalization grants, which Congress could phase out at any time.

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

WHY IT MATTERS

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.

MORE INFORMATION

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.

The solution

Adopt legislation that gives Ecology statutory authority to assess a loan administration charge to pay for its costs to administer the Revolving Fund loan program. The approach protects Washington against the anticipated deficit in federal funds, establishes the Revolving Fund as self sustaining in perpetuity, and maintains a critical loan program that protects clean water in Washington.

The administrative charge would not increase the debt service (cost to the borrowers) beyond what the borrower would otherwise already pay under current rule and process.

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 charge. The interest charged and the administration charge 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 no greater than four percent of the new funding authorized by the legislature for 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 not needed for administration would be returned to the Revolving Fund to finance water quality improvement projects.

How it will work

To implement the administrative charge Ecology will go through a rule making process with its stakeholders. The administrative charge would be applied to each Revolving Fund loan prior to entering repayment status and would be due to Ecology with each loan payment made by the borrower for the life of the loan. For the first five years the charge would be calculated at 1.0 percent of the outstanding loan balance for loans entering repayment. Ecology will evaluate the Revolving Fund loan program's costs to adjust the rate of the administrative charge for loans entering repayment in year six and beyond.

How it will benefit Washington

Eighty five percent of states have authorized loan administrative charges so they can manage their Revolving Funds. Keeping Washington's Revolving Fund loan program adequately supported—and funded—protects an important federal funding source that allows local governments, special purpose districts, and tribes to address water infrastructure improvements that protect public and environmental health. Since the proposed loan charge will not increase loan costs to borrowers, the move helps keep economic recovery efforts at the state and local level moving forward.