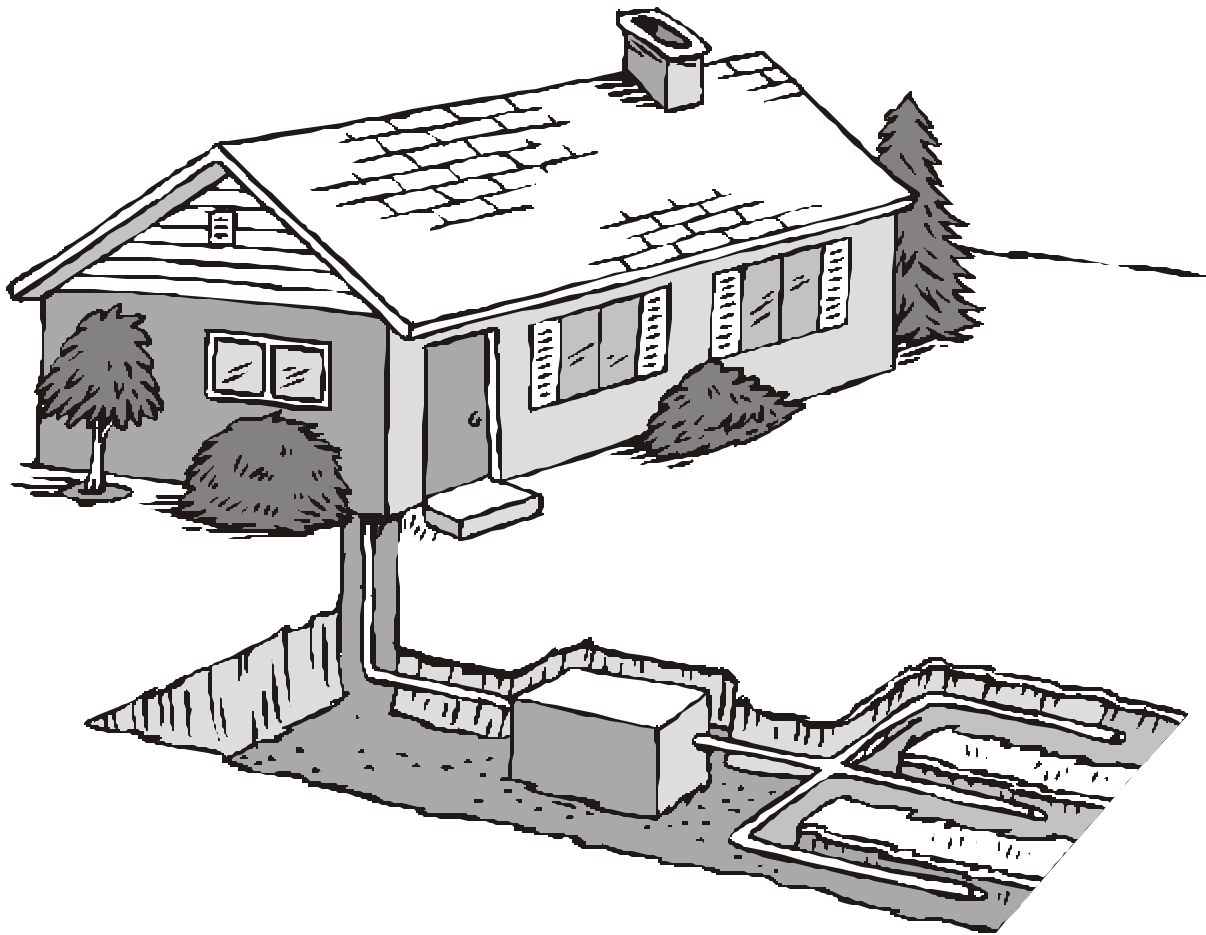


Overview: Funding On-Site Septic Disposal System Repairs and Replacement, Using the Washington State Water Pollution Control Revolving Fund



WASHINGTON STATE
DEPARTMENT OF
E C O L O G Y

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Overview: Funding On-Site Septic Disposal System Repairs and Replacement, Using the Washington State Water Pollution Control Revolving Fund

Megan White, Program Manager, Water Quality Program

Steve Carley, Supervisor, Financial Management Section

Prepared by: *Brad Everson* and
Donna Lynch

Cover graphic created by *Tim Schlender*

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Department of Ecology
Distribution Center
P.O. Box 47600
Olympia, WA 98504-7600
(360) 407-7472

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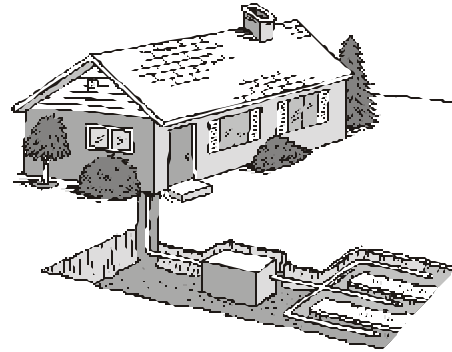
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Why a Water Pollution Control Revolving Fund?

A major source of water pollution all across Washington State is malfunctioning on-site septic tank systems. Approximately 25 percent of Washington's population is currently served by about 645,000 on-site septic systems. It is estimated that up to 15 percent of those systems are inadequately treating sewage that is being discharged to surface and ground waters in our watersheds.



What does the SRF do?

While the state of Washington encourages self-reliance by local governments, the state also helps communities meet their environmental needs. The Washington State Department of Ecology awards low-interest loans from the Washington State Water Pollution Control Revolving Fund (SRF) to local governments who in-turn establish local loan programs. The local funds assist in the financing of critically important public health and environmental projects by making loans, financing guarantees, and technical assistance available for homeowners and small commercial businesses to repair or replace failing or failed on-site septic systems.

The SRF is an innovative approach involving public funds to solve private environmental problems that benefit the public through improved and protected water quality. The SRF funds (as directed by the U.S. Congress) are specifically earmarked for projects that will improve or protect the state's water quality through pollution control activities and prevention. It is Ecology's goal to ensure that the fund is distributed among those projects that address the state's highest priority water quality protection and water pollution control needs. Current local loan programs have repaired or replaced approximately 300 on-site septic systems. Before 1988 no legislatively mandated loan program was available to assist local governments with rehabilitating residential on-site septic systems.

To date the SRF program has loaned over \$6 million dollars to county governments for on-site septic systems repair and replacement. Interest rates of loans to local government range from zero percent for a 5-year term to 5 percent or less for up to a 20-year term.

How is the money used?

Ecology encourages all communities who need help keeping "Waters of the State" clean, to inquire about the program and apply for assistance. The SRF program also provides low-cost financing or refinancing of eligible costs for projects such as publicly owned wastewater treatment facilities, nonpoint source pollution control projects, and comprehensive estuary conservation and management programs.

Both residential wastewater treatment and stormwater management are eligible for financial assistance through the SRF. Water pollution control activities covered by the SRF include; watershed planning, watershed management implementation projects, stormwater management, lake restoration planning and implementation, protecting wild salmon habitat, wellhead protection, water quality monitoring, public information, implementation of agricultural best management practices, education, and technical assistance to land owners and farmers with agricultural activities.

What are the SRF application requirements?

Ecology accepts applications for SRF loans from any public body in Washington including; other state agencies, counties, cities, towns, conservation districts, municipalities, quasi-municipal corporations, or Indian tribes recognized by the federal government. The yearly application period begins in early January and ends in late February. Public announcements about the funding cycle, the amount of money available, and the loan interest rates and terms are widely distributed and advertised before the application period opens. In addition, public workshops are held around the state to explain the application process and general program requirements. Successful applicants are offered funding in early August of each year.

Before an SRF loan is approved for establishing a local loan program, Ecology reviews:

- The local priority system used to rank and fund local projects;
- The ability for local government to repay the SRF loan;
- The procedures of local government to collect repayments loans from citizens; and
- The procedures for quality control of projects during and after construction.

How did the SRF begin?

The United States Congress established a federal SRF program as part of the Clean Water Act Amendments of 1987. The amendments authorized the EPA to offer yearly capitalization grants to states for establishing self-sustaining loan programs. In response, our State Legislature passed a statute in 1988 – Water Pollution Control Facilities Federal Capitalization Grants (Chapter 90.50A RCW) – creating Washington State’s SRF program and authorized Ecology to administer the program.

The long-range health and environmental goals in Washington’s law require the protection of surface and ground waters for the health, safety, use, enjoyment, and economic benefit of all people living in the state. It is the purpose of this law to provide an account to receive federal capitalization grants, state match, principal and interest repayments, and establish the SRF loan program.

Lessons Learned

By local governments

- ◆ The concept of entering the “Banking Business” in evaluating applicants, dealing with small unstable businesses, and agricultural properties can be challenging.
- ◆ While this program is a great service to the community, few people applied voluntarily, most applications were the result of enforcement actions.
- ◆ Be prepared for applicants with a poor credit history.
- ◆ Be prepared to get in line behind mortgage banks for outstanding debt.
- ◆ Be prepared for slow installers that can result in a waiting list for new applicants.
- ◆ Be prepared to recover costs immediately when homes are sold following repairs.
- ◆ Be prepared to prioritize applicants.
- ◆ Be prepared to address rental properties.
- ◆ Be prepared to address businesses large and small.

By the Department of Ecology

- ◆ Ability to put the money to use in a timely fashion varies greatly from county to county.
- ◆ Counties that have secured an interest bearing SRF loan have found that it is more difficult to market its local loan program for on-site septic system rehabilitation or replacement than those who have secured a non-interest bearing loan. The reason is, most local governments charge interest on loans as a source of funds to administer its local loan program. If the local government charges 4 percent interest to the borrowers and the SRF loan from Ecology is 4 percent, the net result is a program that borrowers cannot afford to participate in. Ecology encourages local governments and tribes requesting SRF funding for an on-site septic system rehabilitation or replacement program, to carefully consider the potential implications of an interest-bearing SRF loan.

List of Participants

Bremerton–Kitsap County Health District
Local Loan Program/Water Quality Improvement Loan Program

Clallam County Department of Community Services
Nonpoint - Callam County Water Quality Cleanup Fund

Island County Health Department
On-Site Repair Assistance Program.

Jefferson County
Septic System Repair Program/Program II

Lewis County
On-Site Financial Assistance Program

Mason County Health Department
Nonpoint Water Quality Improvement Fund

San Juan County Health & Community Services
San Juan County Loan Fund

Skagit County Planning & Permit Center
Water Quality Improvement Fund

Thurston County Public Health & Social Services
On-Site Financial Assistance Program

Local Community Loan Fund Profiles

Bremerton-Kitsap County Health District

CONTACT: Don Miles
109 Austin Drive
Bremerton, WA. 98312

PHONE: (360) 337-5285

PROJECT TITLE: Septic Repair Local Loan Program

LOAN AMOUNT: \$314,000 (1998 funding)

PROJECT SUMMARY: The Health District/Department of Ecology loan of \$300,000 is being utilized to fund septic repair loans. Loans are made by promissory notes secured by deed of trust on the property. Interest rates charged range from 3 percent to 7 percent depending on the loan duration. The maximum loan amount is \$10,000. All loan repayments are current.

Loan Statistics:

Average loan amount of all loans	\$7,242 for 1998 - \$6,344 for 1997
Number of loans in default	0 for all years of funding
Number of loans repaid in full	2 for 1998
Loans canceled at time of signing	1 for 1998

Since the program inception in 1994, the Health District has repaired or replaced 56 on-site septic systems with loans that average \$7,847.72 each, for a total of \$439,472.54. (This includes two funding rounds from Ecology at \$300,000 each.)

FINANCIAL MANAGEMENT: The Kitsap County Consolidated Housing Authority is processing loan applications. Once loans are approved the Health District services the loans with existing accounting staff.

LOAN SECURITY: Deed of Trust

REPAYMENT: Monthly payments are based on a sliding interest rate ranging from terms of 3 to 7 percent for 24 to 120 months terms.

MARKETING RESOURCES USED: News media and Local On-site Technical Advisory Committee. The majority of loan referrals seem to come from Health District staff involved with complaint investigations.

CHALLENGES ENCOUNTERED OR LESSONS LEARNED:

- Untimely repair bids from contractors cause delays in processing loans and implementing repairs. The Health District has requested contractors interested in doing repairs to submit repair plans in a timely manner.
- Cancellation of loan after the approval process has started, (obtaining credit and title reports) result in loss of processing costs.
- Some applicants were having problems qualifying for a loan. The district has initiated a loan/grant combination to assist some applicants. The grant portion is limited to a certain geographical shellfish affected area. In addition, the Housing Authority, which processes the loans for the Health District, has helped applicants with the grant program related to housing.
- With the current low rates on the commercial market many potential loan applicants are seeking conventional financing to make repairs.

Clallam County Department of Community Development

CONTACT: Win Slota **PHONE:** (360) 417-2420
Clallam County Department of Community Development
P.O. Box 863
Port Angeles, WA. 98362

PROJECT TITLE: Clallam County Water Quality Cleanup Fund

LOAN AMOUNT: \$250,000

PROJECT SUMMARY: To repair failing on-site sewage treatment systems. As of December 1, 1998, 50 septic systems have been placed or repaired to meet environmental health and water quality standards.

FINANCIAL MANAGEMENT: Geared toward low-income applicants.

LOAN SECURITY: Lien is placed on the property. Deed of trust/promissory note.

REPAYMENT: 5-year term with 3 percent interest rate on the unpaid balance of the loan.

MARKETING RESOURCES USED: News releases, brochures, word of mouth.

Island County Health Department

CONTACT: Kathleen Parvin
Island County Health Department
P.O. Box 5000
Coupsville, WA. 98239

PHONE: (360) 679-7350

PROJECT TITLE: On-Site Repair Financial Assistance Program

LOAN AMOUNT: \$300,000

PROJECT SUMMARY: Establishment of a local loan fund to repair or replace failing residential on-site sewage disposal systems. Providing financial assistance as both an aid and an incentive has reduced the discharge of household wastewater into the ground and surface water, with the repair or replacement of 30 on-site septic systems as of December 1, 1998.

FINANCIAL MANAGEMENT: County residents who have failing on-site sewage disposal systems will be eligible to apply for repair funds if:

1. The system failure is verified by the Island County Health Department; and
2. The annual household income is 250 percent or less than the most current Federal Poverty Income Guidelines, but in no event to exceed 80 percent of the mean household income for Island County households as established by the state Office of Financial Management; and
3. The residential property is the homeowner's primary residence; and
4. The repair is not part of a home remodel or replacement proposal.

LOAN SECURITY: Loans are secured by a promissory note, a deed of trust on the property establishing Island County's interest, and title insurance. Outstanding balances will be paid in full upon sale or transfer of the property.

REPAYMENT: Loan servicing, collecting, and tracking of repayment are handled by a bank. All loans are limited to 3 years at 0 percent interest on the unpaid balance.

MARKETING RESOURCES USED: Enforcement actions on failing drainfields, include information regarding the local loan program. Media interest regarding the program provided press coverage. The Island County Health Department public education program and slide show for homeowners on proper operation and maintenance of sewage disposal systems will include a discussion of the loan program.

CHALLENGES ENCOUNTERED OR LESSONS LEARNED: More time consuming and involved than anticipated. Requires a team approach involving the Title-Company, Bank, and County Treasures Office to be successful.

Jefferson County

CONTACT: Karen Bednarski
Jefferson County
P.O. Box 1220
1820 Jefferson Street
Port Townsend, WA. 98368

PHONE: (360) 385-9121

PROJECT TITLE: Water Quality Improvement Fund

LOAN AMOUNT: Program I – \$155,400
Program II – \$100,000

PROJECT SUMMARY: Establishment of a local loan program designed to encourage Jefferson County residents to voluntarily identify and correct water quality problems on their property by upgrading or repairing existing on-site septic systems. As of December 1, 1998, a total of 24 on-site septic systems have been repaired or replaced through this loan program.

FINANCIAL MANAGEMENT: Residents with on-site septic systems qualifying for loans will be prioritized first by the severity of Water Quality degradation. Low income and senior citizens will receive a high eligibility rating. Residents who are more capable of payment will receive a lower eligibility rating and a slightly higher interest rate for loan repayments.

LOAN SECURITY: Loans are secured with a promissory note, a deed of trust on the property to Jefferson County, and title insurance.

REPAYMENT: All loan servicing, collecting, and tracking of repayments are handled by Jefferson County. Terms are:

Low Income/Senior Citizens		Other Citizens	
0 – 5 years	0%	0 – 5 years	6%
6+ years	4%	6+ years	8%

MARKETING RESOURCES USED: The availability of loans, is publicized through news releases, flyers, and announcements.

CHALLENGES ENCOUNTERED OR LESSONS LEARNED: Challenges were anticipated and addressed before implementation of this program in the many, many months spent planning.

Lewis County

CONTACT: James Goode **PHONE:** (360) 740-1110
Environmental Services Manager
360 NW North Street
Chehalis, WA. 98532

PROJECT TITLE: Lewis County Water Quality Improvement Fund.
On-Site Financial Assistance Program.

LOAN AMOUNT: \$160,000 on a revolving basis.

PROJECT SUMMARY: To provide low interest loans for low-income families to replace failing septic systems. Four on-site septic systems have been replaced as of December 1, 1998.

FINANCIAL MANAGEMENT: See attachment "Rules and Procedures for Application". This document includes eligibility of the property, eligibility of the applicant and how to apply.

LOAN SECURITY: Deed of Trust against the property

REPAYMENT: Payments are made to the Lewis County Treasure's Office. Applicants may choose monthly, quarterly, or semi-annual payments. Each applicant has a loan repayment book that keep track of their declining balance owed. Interest rate is 5.5 percent on the unpaid balance.

MARKETING RESOURCES USED: Newspaper articles, "The Focus," a Lewis County Government newsletter distributed semi-annually, and brochures distributed by Environmental Services staff to potentially eligible citizens, and the Southwest Washington Fairgrounds – county information booth.

CHALLENGES ENCOUNTERED OR LESSIONS LEARNED:

1. Citizens tend to look for other resources when they discover we are going to have a Deed of Trust on their Land.
2. Applicants are overextended on current credit making it very challenging to qualify them for the funds.
3. Need funds to assist with conversion from failing septic system to a qualifying sewer system.

Mason County

CONTACT: Pam Denton
Mason County Department of Health
P.O. Box 1666
Shelton, WA. 98584

PHONE: (360) 427-6970 (ext. 554)

PROJECT TITLE: Mason County Water Quality Improvement Fund

LOAN AMOUNT: \$300,000

PROJECT SUMMARY: Establishment of a local loan fund to provide loans to land/home owners and small commercial businesses to correct problems that are impacting water quality. The types of nonpoint projects, which will be considered for funding by this program, are on-site sewage system repairs, implementation of agricultural best management practices and farm plan development and implementation. A total of 32 on-site septic systems have been replaced or repaired through this fund.

FINANCIAL MANAGEMENT: Highest priority will be given for correction of on-site sewage systems with inadequately treated sewage entering surface waters, and for improved management of animal wastes which are directly entering streams or marine waters. Second priority will go for correction of on-site systems with surfacing sewage and managing animal/farm wastes with potential to enter surface waters during periods of rain. Third priority will provide for correction of marginally operational on-site systems with the potential to contaminate surface waters and animal/agricultural projects not meeting priority one or two, but judged to have a serious potential to pollute.

LOAN SECURITY: Loans are secured by a promissory note, a deed of trust on the property establishing Mason County's interest, and title insurance. Outstanding balances will be paid in full upon sale or transfer of the property.

REPAYMENT: All loan servicing, collecting, and tracking of repayments are handled by Centennial Bank and the County Treasurer. Interest rate is 4 percent over 10 years.

MARKETING RESOURCES USED: The availability of loans are made known through newspaper articles and paid advertising. Workshops are also held to explain the program and describe the application process.

CHALLENGES ENCOUNTERED OR LESSONS LEARNED: The concept of entering the "Banking Business" in evaluating applicants was overwhelming. In addition, small commercial businesses do not have a cut and dry income to debt ratio, making loan approvals challenging. Going into this program we felt it was a great service and would be received positively. What we

discovered is that few applied voluntarily, the majority came forward as the result of enforcement actions and were not happy applicants.

San Juan County

CONTACT: Gary Covington
P.O. Box 607, 145 Rhone
Friday Harbor, WA. 98250-0607

PHONE: (360) 378-4474

PROJECT TITLE: State Revolving Fund

LOAN AMOUNT: \$300,000

PROJECT SUMMARY: Funds used as of October 1, 1998 were \$101,688.17. On-site septic systems repairs or replacements total eight as of December 1, 1998.

FINANCIAL MANAGEMENT: Repair of failed on-site sewer systems. See attachment.

LOAN SECURITY: Deed of Trust and Promissory Note to Attach Property.

REPAYMENT: Interest rate is 2 percent on the unpaid balance. See attachment.

MARKETING RESOURCES USED: Announcements; local newspapers; inform homeowners through designers, installers, sewage pumpers, and sanitary surveys.

Skagit County Planning and Permit Center

CONTACT: Alison P. Mohns
Skagit County Permit and Planning
700 S. Second, Room 204
Mount Vernon, WA. 98273

PHONE: (360) 336-9410

PROJECT TITLE: State Revolving Fund Loan

LOAN AMOUNT: \$350,000 – Last Rotation
\$500,000 – First Rotation

PROJECT SUMMARY: Low interest loan funds made available countywide for the repair of on-site septic systems. This has worked really well. We have a waiting list of more applicants for the next rotation of state funds. As of December 1, 1998, 75 on-site septic systems have been repaired or replaced.

FINANCIAL MANAGEMENT: Copy of deed/ownership; light credit history; IRS history; application filled out; application picked up; after paperwork is completed an application meeting with the Treasurer's office, approval letter; bid process for soils design, installation; sign loan, route bills.

LOAN SECURITY: Lien against property, light title search for credit history.

REPAYMENT: Monthly payments for length of note. Interest rate choice of 4 percent for 5 years, 4½ percent for 10 years, or 5 percent for 15 years on the unpaid balance.

MARKETING RESOURCES USED: Paper ads, local newsletters; conservation district flyers; area meeting on water quality; word of mouth through designers and installers that work in the problem areas.

CHALLENGES ENCOUNTERED OR LESSONS LEARNED: What to do when applicant has poor credit history; what if the new system fails and no payment is received, or County not in place behind mortgage bank. Billing routing if tied to other programs makes installers "bankroll" the system. Waiting list, adding people when others on the list are slow to install. Homes that get sold immediately after installation loan due at that time. How to address rentals, larger businesses, numerous rentals/landlords, and prioritizing applicants.

Thurston County Environmental Health Department

CONTACT: Art Starry or Debra Baker
2000 Lakeridge Dr. SW
Olympia, WA. 98502

PHONE: 360 – 754 – 3355
(ext. 7394)

PROJECT TITLE: On-Site Financial Assistance Program

LOAN AMOUNT: Program 2, Hardship Loans - \$200,000
Program 3, Standard Loans - \$200,000

PROJECT SUMMARY: The goal of the On-Site Financial Assistance Program is to provide low cost, long term loans for citizens to use for the repair of failing on-site sewage systems. The loan applications are reviewed on a somewhat more lenient basis than a traditional bank loan review, in order to address the water quality issue brought about by failing sewage systems. There are, however, standards for eligibility, which must be met by the applicant.

The financial assistance program is divided into two separate funds. The “hardship” loan fund began in 1994 to assist those applicants whose loan payments at regular interest rates would represent a significant portion of their annual income. In this program, applicants must have a gross, annual family income of \$50,000 or less. In addition, the repair must be such that payments at our higher “regular” interest rate would equal one and one half percent of the gross, annual family income. These loans have been very useful for applicants who are retired, or living on more limited incomes, and face very expensive repairs.

The standard loan fund, which was begun in 1996, carries an interest rate of 6.5 percent. In order for applicants to qualify for this program, the applicant’s gross, annual family income must be \$75,000 or less. In both cases, the applicant must have an on-site system, which is in enforceable failure. Repairs are only for current use, no expansions or additions are allowed in the programs. As of December 1, 1998, a total of 35 on-site septic systems have been repaired or replaced county-wide.

FINANCIAL MANAGEMENT: When an application for a loan is submitted to Thurston County, a two stage review process begins. The loan processor will calculate the debt-to-income ratio of the applicant, check the applicant’s tax history, check the assessed value of the property and request the applicant’s credit report. Meanwhile, a sanitarian will usually conduct a site evaluation of the property to determine if a failure actually exists. All of the information is then presented to a loan review committee, which makes the decision on whether or not to grant the loan. As previously stated, standards are somewhat more lenient than would be expected at a bank, but the applicant must show reasonable ability to repay the loan. If the loan is granted, a title search is conducted to verify equity.

As of October 1998, funds loaned from the “hardship” program total approximately \$86,800, while funds loaned from the standard loan program total approximately \$84,000.

LOAN SECURITY: Loans are secured by a Deed of Trust on each subject property. The terms of the Deed of Trust provide for the assessment of penalties and interest on late payments. The Deed also provides the beneficiary with the right to call in any loan that is in default, and to take action to sell the subject property of a loan that is in serious default.

REPAYMENT: Loan payments are billed by the County Treasurer at the same time that property taxes are billed. Payment is made directly to the Treasurer, semi annually, on the same dates that property taxes are due. Interest rate is 6.5 percent on the unpaid balance.

MARKETING RESOURCES USED: Information is presented at neighborhood workshops, conducted by the Resource Protection Program of Thurston County Environmental Health Department, and by Thurston County Community and Environmental Programs Department. Local on-site sewage system designers and installer are informed about the program and suggest it to their clients who have need for financial assistance. Informational fliers are displayed at the Permit Assistance Center.

CHALLENGES ENCOUNTERED OR LESSONS LEARNED: One of the most important challenges in this program is finding a balance between; the need to ensure loan recipients have the ability to repay the loan; and the need to address the water quality issues brought about by the failure of the sewage system. We have dealt with the challenge by setting standards that are more lenient than bank requirements, but still show some security for the County. Examples are:

1. Making the loan when the applicant has a high debt-to-income ratio, but a good credit and tax history and a large amount of equity in the property.
2. Making the loan when the credit history is less than perfect, but the debt-to-income ratio is very low and there is a large amount of equity in the property.

At present, there are no loans in Thurston County’s program where payments are not current. One lesson learned early in the design of the program is that defaults on loan payment are less likely to occur when the billings are sent from the County Treasurer with property tax statements.

Another challenge in the program has been that connections to public sewer are not eligible to be funded by the loan program. There are instances where an on-site sewage system has failed and connection to public sewer is available and the best option for the site. The cost of abandonment of an on-site sewage system and connection to a public sewer can be very high and can present a serious hardship to the homeowner. It would be a great benefit, from a public health standpoint and to the individual homeowner, to have funds available for such situations.