



# Focus on Grants and Loans

Funds for Water Quality Improvement and Protection

## Issue

The Washington State Department of Ecology's Water Quality Program administers several state and federal financial and technical assistance programs to improve and protect water quality. For fiscal year 2004 (July 1, 2003 - June 30, 2004), Ecology expects to offer \$12.5 million from the Centennial Fund and \$70 million from the State Revolving Fund to local governments, Indian tribes, and not-for-profit organizations to help address our state's most critical water quality problems.

Water quality needs in Washington far exceed the amount of state and federal funds available to protect and improve our state's waters. An analysis of water quality funding needs for the next 20 years shows the true amount to be in excess of \$2.7 billion, or more than \$135 million per year.

## Background

Since the early 1970s, Ecology has administered grants and loans and provided technical assistance to help communities improve and protect water quality. The current funding programs are the Centennial Clean Water Fund, the State Water Pollution Control Revolving Fund, and the Clean Water Act Section 319 Nonpoint Source Program.

A 1986 state statute created the Water Quality Account, which is financed primarily through taxes on tobacco products. The account includes the Centennial Clean Water Fund. As of June 2002, Ecology has been appropriated a total of approximately \$527 million in Centennial Clean Water Funds to provide grants and loans to public entities for water pollution control projects.

In 1987, the United States Congress established the State Revolving Fund to replace the federal Construction Grant program. The State Revolving Fund is a state-managed low-interest loan program. The state provides a 20 percent match to federal funds. Ecology awards State Water Pollution Control Revolving Fund low-interest loans to public entities for water pollution control projects.

Ecology has provided a total of approximately \$463 million in low-interest loans to local governments under the State Revolving Fund. Furthermore, approximately \$16 million is repaid to the state every year (in addition to Congressional appropriations and State match) to be loaned out again for highest-priority water quality projects. Even though interest rates on loans have been 0.5 to 1.5 percent over the past three years, the interest earnings and interest accrued from public bodies will increase with time; as a result, the fund is intended to be self sustaining in perpetuity.

The federal Clean Water Act Section 319 Nonpoint Source Program provides assistance to public entities and not-for-profit organizations to manage nonpoint source pollution and to protect and improve water quality. The state provides a 40 percent match to the federal funds via those Centennial Clean Water Fund projects that focus on nonpoint source pollution.

## Recent Funding Cycles

Since fiscal year 1997, Ecology conducts a combined annual application process for the Centennial Clean Water Fund, State Revolving Fund, and Clean Water Act Section 319 Nonpoint Source Program. This results in increased flexibility for local governments and improvements in efficiency and effectiveness for the administration of the funds. The governor recognized Ecology for these process changes under the “Governing for Results” program in December 1997. During the yearly application cycles for the 2002-2003 biennium, local governments, Indian tribes, special districts, and not-for-profit groups requested approximately \$382 million for 242 proposed projects. Ecology was able to offer approximately \$253 million in loans and grants to fund 179 water quality projects in the 2002-2003 biennium. In 2002, Ecology offered a total of approximately \$145 million for 73 projects. Ecology anticipates a similar level of requests in the coming year and biennium.

## 2004 - 2005 Biennium Funding Cycles

For the 2004 - 2005 biennium, the Governor’s budget asked the state legislature to appropriate approximately \$25 million from the Water Quality Account for the Centennial Clean Water Fund. The list below shows how the Centennial Fund, the State Revolving Fund, and the Section 319 Nonpoint Source Fund would be distributed during the current biennium and as anticipated for FY 2004. While the numbers are subject to change due to legislative appropriation, federal budget adjustments, loan repayment, etc., Ecology estimates that there will be approximately:

- *Centennial Fund*: \$25 million in competitive grant and loan funding for the biennium, including \$17 million in legislative provisos for Spokane, Spokane County, and King County. Approximately \$12.5 million is projected to be available in FY 2004.
- *State Revolving Fund*: \$70 million in funding for competitive distribution available for FY 2003.
- *Section 319 Nonpoint Source Fund*: \$2 million for competitive distribution available to local agencies for FY 2003.

## What’s New for Fiscal Year 2004?

- As the Legislature directed, Ecology will focus more directly on outcomes and performance measures in its priority rating system for loans and grants.
- Ecology is being responsive to the State Auditor’s recommendations to provide different levels of technical assistance based on project type and experience with the applicant.
- Several local governments saw some distinct advantages to an Alternative Contracting/Service Agreement process, so that they could proceed more expeditiously and cost effectively by designing segments of the project and constructing these segments as other segments were being designed. Ecology collaborated with these governments as it developed a pilot rule and guidelines to allow for this process to be used in FY 2004.

More specifically, Ecology is addressing the need for clearer outcomes in the following manner:

### **Environmental Results and Performance Measures to be Assigned Priority Points**

“Eventual and Project Level Environmental Results,” including success measures, performance assessment measures and continued monitoring (post state funding) required by HB 1785 (signed into law in 2001), and the related Joint Legislative Audit and Review Committee (JLARC) recommendations, will be evaluated for each project.

Specific points are to be assigned to:

- **Eventual Environmental Results** are reflected in the FY 2004 Water Quality Financial Assistance Application. Ecology believes that planning and implementation by applicants must clearly and broadly show what the applicant and Ecology can ultimately expect to be achieved through the project alone, or ultimately with several projects, from the investment of time and money by both agencies.
- **Performance Measures** will be more clearly highlighted this year to demonstrate how the project qualitatively and quantitatively will make a difference toward the Eventual Environmental Result(s).
- **Performance Assessment Measures and Continued Monitoring (post state funding)** will also be highlighted, because there is a clear need to better track results achieved (for example, before and after counts of returning salmonids) to ensure the integrity of the state’s investment.

### **Loans as Primary Method of Assisting Facilities Projects**

The shift from grants to loans for facilities construction projects, and the importance of being “ready to proceed” (both made through regulation in 2000) will be retained.

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