

**U.S. Environmental Protection Agency, Region 10**



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# **Program Evaluation Report**

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Washington Department of Ecology  
State Fiscal Years 1999-2001

April 10, 2003



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
REGION 10  
1200 Sixth Avenue  
Seattle, WA 98101

APR 23 2003

Reply To  
Attn Of: ECO-086

Megan White, Program Manager  
Water Quality Program  
Washington State Department of Ecology  
P.O. Box 47600  
Olympia, WA 98504-7600

RE: Program Evaluation Report for the Washington Water Pollution Control Revolving Fund

Dear Ms. White:

In cooperation with the Water Quality Financial Assistance Program staff of the Department of Ecology (Ecology), the U.S. Environmental Protection Agency (EPA) has completed an extended periodic review of Ecology's continuing administration of the Washington Water Pollution Control Revolving Fund (Fund). I have enclosed the results of this review in the EPA's Program Evaluation Report (PER) of Ecology's program for state fiscal years 1999 through 2001.

The PER identifies three key subjects in which action by Ecology is needed and for which Ecology has indicated that it will take appropriate action:

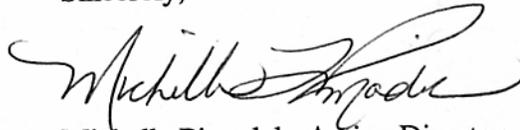
1. Development and implementation of a protocol for assessing the creditworthiness of each applicant for financial assistance from the Fund.
2. Revisiting the interest rates charged on new loans to insure the long-term sustainability of this water quality financial assistance program
3. Revising the protocols that Ecology uses to report its progress at meeting the Minority Business Enterprise and Women's Business Enterprise goals established in the EPA capitalization grant agreements for the Fund.

The PER documents that Ecology has, over the past few years, engaged in a successful process of continuous improvement in its operation of the Washington Water Pollution Control Revolving Fund. This process is enhancing Ecology's ability to manage the Fund as well as its ability to maximize the water quality and aquatic habitat benefits that the State is obtaining from its water quality financial assistance programs.

A noteworthy component of Ecology's management system is the Washington Water Quality Financial Assistance Council that Ecology created a few years ago. This advisory body includes the full range of interests contemplated in the EPA regulations guiding EPA and state efforts to involve the public in the development and implementation of water quality programs. We consider it a model and have encouraged the other states in our region to develop similar advisory groups. Its structure and responsibilities were also incorporated into presentations that Region 10 staff made last month as part of national training that the EPA provided to all of the EPA staff responsible for state revolving fund program oversight.

If you have questions regarding the enclosed report, please call me at (206) 553-1272, or contact Dan Steinborn of my staff, at (206) 553-2728. We look forward to continuing to work with Ecology's Water Quality Financial Assistance Program staff to implement the actions identified in the PER, as well as protect and improve the water quality in the state of Washington.

Sincerely,

A handwritten signature in black ink, appearing to read "Michelle Pirzadeh". The signature is fluid and cursive, with a large initial "M".

Michelle Pirzadeh, Acting Director  
Office of Ecosystems and Communities

Enclosure

cc: Carrie Berry, Washington Department of Ecology

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# Table of Contents

<b>EXECUTIVE SUMMARY</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>4</b>
<b>SCOPE OF THE REVIEW</b> .....	<b>4</b>
<b>REVIEW OF CURRENT PROGRAM STATUS</b> .....	<b>4</b>
<b>SFY1998 PROGRAM EVALUATION REPORT FOLLOW-UP</b> .....	<b>7</b>
<b>REVIEW OF FINANCIAL MANAGEMENT PRACTICES</b> .....	<b>10</b>
ACCEPTANCE OF GRANT PAYMENTS [40 C.F.R. 35.3135(A)] .....	10
STATE MATCH [40 C.F.R. 35.3135(B)] .....	10
BINDING COMMITMENTS [40 C.F.R. 35.3135(C)] .....	11
TIMELY AND EXPEDITIOUS USE OF FUNDS [40 C.F.R. 35.3135(D)] .....	12
CASH DRAW RULES [40 C.F.R. 35.3155(D) AND 35.3160] .....	14
OUTLAY MANAGEMENT [40 C.F.R. 35.3155(B)] .....	15
GENERALLY ACCEPTED ACCOUNTING PRINCIPALS (GAAP) [40 C.F.R. 35.3135(H)] .....	15
PERPETUITY [40 C.F.R. 35.3100(A)] .....	15
LOAN APPLICANTS' CREDITWORTHINESS .....	17
<b>REVIEW OF PROJECT MANAGEMENT PRACTICES</b> .....	<b>18</b>
COMPLIANCE WITH TITLE II REQUIREMENTS [40 C.F.R. 35.3135(F)] .....	18
RECIPIENT ACCOUNTING [40 C.F.R. 35.3135(I)] .....	19
ENVIRONMENTAL REVIEWS [40 C.F.R. 35.3140] .....	19
MBE/WBE COMMITMENT AND REPORTING [40 C.F.R. 35.3145(D)] .....	19
FIELD INSPECTIONS AND FILE REVIEW .....	20
<i>North Bend WWTP Improvements, Phase IIA and IIB (Loan L0000010)</i> .....	20
<i>Bremerton-Kitsap County Health District Local Loan Program (Loan L0100003)</i> .....	21
<i>Vashon Sewer District Beulah Park/Cove Hazard Area Wastewater Facilities Construction Project (Loan L9800021)</i> .....	21
<i>Olympus Terrace Sewer District Open Channel UV Disinfection System (Loan L0000009)</i> .....	22
ELIGIBLE ACTIVITIES [40 C.F.R. 35.3115, 3120 AND 3125] .....	22
INTENDED USE PLAN DEVELOPMENT [40 C.F.R. 35.3150] .....	23
ACHIEVEMENT OF GOALS AND OBJECTIVES .....	24
<i>Long-term Goals</i> .....	24
<i>Short-term Goals</i> .....	26
REPORTING .....	27
<i>Annual Report [40 C.F.R. 35.3135(j) &amp; 35.3165]</i> .....	27
<i>Data Management [40 C.F.R. 35.3130(b)]</i> .....	27
<b>DEPARTMENT OF ECOLOGY'S COMMENTS ON THE DRAFT PER</b> .....	<b>27</b>
<b>PROJECT MANAGEMENT REVIEWS APPENDIX</b> .....	<b>I</b>
NORTH BEND WWTP IMPROVEMENTS, PHASE IIA AND IIB L0000010/G0000173 .....	I
BREMERTON-KITSAP COUNTY HEALTH DISTRICT LOCAL LOAN PROGRAM .....	VI

VASHON SEWER DISTRICT BEULAH PARK/COVE HAZARD AREA WASTEWATER FACILITIES CONSTRUCTION PROJECT ..... XI  
 OLYMPUS TERRACE SEWER DISTRICT OPEN CHANNEL UV DISINFECTION SYSTEM ..... XVI

**REPORT TABLES**

- Table 1 Capitalization Summary .....5
- Table 2 Payments .....10
- Table 3 State Match Compliance.....11
- Table 4 Cumulative Outlays as a % of Total Capitalization Grants 13
- Table 5 Cumulative Loan Repayments and Interest Earnings..13
- Table 7 Pace of Construction .....14
- Table 8 Cash Draw Proportionality .....15
- Table 9 Investment Yield .....16
- Table 10 Loan Portfolio Yield .....16
- Table 11 EPA Forms 5700-52 Submitted .....20

**REPORT FIGURES**

- Figure 1 Binding Commitment Ratio.....11
- Figure 2 Annual Binding Commitment Amounts.....12
- Figure 3 Comparison of Annual Project Commitments at Different Interest Rates 17

## Executive Summary

The Washington Department of Ecology (Ecology) manages the Washington Clean Water State Revolving Fund<sup>1</sup>, the Washington State Centennial Clean Water Fund Grants Program and the Nonpoint Source Water Quality Grants program (under §319 of the Clean Water Act). The Department of Ecology manages these programs jointly to maximize the water quality benefits of its water quality financial assistance programs and minimize the administrative costs incurred by the state and water quality financial assistance recipients.

Through the end of State Fiscal Year (SFY) 2001, the Washington Clean Water State Revolving Fund (CWSRF) had entered into binding commitments totaling approximately \$413 million in assistance. Through the end of that same time period, the CWSRF had approximately \$460 million (EPA & state match grant funds plus accumulated repayments & interest) available to commit to new loans. Thus, as of that date it had committed to financing projects approximately 90% of its total available funds.

The CWSRF program's principal strengths include:

- An experienced and dedicated professional staff in Ecology's regional offices as well as in its central office. The staff have repeatedly demonstrated that they are unusually adept at working with a wide variety of interested organizations and people to improve the program and improve the ability of the program to contribute to meeting the State's water quality objectives and needs.
- A demonstrated willingness on the part of the program's management and staff to develop innovative methods for financing water quality projects while protecting the assets of the Fund. This has resulted in an increasing proportion of the loan portfolio being devoted to nonpoint source water quality projects.
- The integrated application process that it has designed and used in which water quality project sponsors can submit one application to be considered for all of the types of water quality financial assistance available from the Department including nonpoint source grants under §319 of the Clean Water Act, grants and loans under the state's Centennial Clean Water Fund and loans from the Washington Water Pollution Control Revolving Fund.
- Effective coordination with the Puget Sound Water Quality Action Team to promote the use of the Fund to finance projects that implement the Puget Sound Water Quality Management Plan and the Action Team's two-year action plan for Puget Sound.
- Strong support from and effective coordination with the management of Ecology's water quality program.

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<sup>1</sup> The Washington Fund is referred to in state law as the Water Pollution Control Revolving Fund. To be consistent with how the Environmental Protection Agency refers to the program nationally, we will continue referring to it in this report as the Clean Water State Revolving Fund.

- Its creation and use of the Washington Water Quality Financial Assistance Advisory Council in the development and administration of the Department's water quality financial assistance programs.

As of the end of SFY 1999, The Washington CWSRF also had some significant challenges in front of it, which it addressed in the later years addressed in this PER:

- As the Department of Ecology and the Environmental Protection Agency (EPA) were reviewing the Department's proposed Intended Use Plan (IUP) for SFY 2000, we discovered that the Department had significantly underestimated the amount of accrued Fund earnings that were not yet committed to new loans. This surplus meant that the EPA was unable to make a capitalization grant award from the Federal Fiscal Year (FFY) 1999 allotment to support the SFY 2000 IUP's implementation. In developing its SFY 2001 IUP, Ecology expanded its marketing significantly and sharply reduced the interest rates it would charge on new loans. These changes resulted in an SFY 2001 Intended Use Plan that captured all of the FFY 1999 and FFY 2000 capitalization allotments from the EPA.
- The Department has invested considerable time and energy in developing a new integrated planning and priority setting system in SFY 1998 and SFY 1999. This system was tested in SFY 1999 to develop the Intended Use Plan for SFY 2000. It was revised during SFY 2000 for the development of the SFY 2001 Intended Use Plan. More fine-tuning adjustments were made before the Department started to develop its SFY 2002 Intended Use Plan.
- As noted later in this report, Ecology is continuing to develop an automated loans receivable tracking system. This loans receivable tracking system should allow Ecology to have a significantly more accurate real-time assessment of the Fund's cash balances and anticipated cash flows. The EPA encourages Ecology to keep this as a high priority project so that it can be put into full operation as soon as possible.

Our review found three subjects where action by the Department of Ecology is warranted:

1. During the SFY 1998 period, the Department did not report accurate dollar amounts of MBE or WBE participation in the CWSRF program to the EPA. MBE/WBE percentage goals are negotiated annually and identified in each capitalization grant. Ecology is responsible for ensuring that all loan recipients obtaining CWSRF funds send EPA Form 5700-52A, *MBE/WBE Utilization under Federal Grants, Cooperative Agreements and Other Federal Assistance*, to the Department of Ecology. The Department must collect and aggregate EPA Form 5700-52A, *MBE/WBE Utilization under Federal Grants, Cooperative Agreements and Other Federal Assistance*, from all loan recipients receiving CWSRF funds and submit this information on a quarterly basis to EPA. These reports are normally due 30 days after the end of the quarter. This performance review has found that Ecology has not yet solved this problem. The Department

needs to take a thorough look at how it is reporting MBE/WBE progress, correct the errors and omissions in its reporting protocol and take appropriate steps to insure that the required reports are submitted to the EPA on time.

*The Department, in its comments on the Draft PER stated that it would remind all SRF loan recipients of the MBE/WBE reporting requirements. It would also take action to see that these borrower reports are routed to the Department's Fiscal Office so that accurate and timely reporting will occur.*

2. The Department currently does not complete any credit worthiness evaluation of a loan applicant. Absent such a credit worthiness evaluation or a financial capability assessment, the Department can't demonstrate that an adequate dedicated source of revenue exists to repay the requested loan, as required by §603(d)(1)(v) of the Clean Water Act and 40 C.F.R. §35.3120(a)(iv). The Department must develop and implement appropriate procedures for completing credit worthiness evaluations on every loan application.

*After reviewing the Draft PER, the Department agreed to begin developing criteria and procedures for completing financial capability assessments on every loan application. The Department stated, in a telephone conversation, that the financial capability assessment protocol would be developed in consultation with the Washington Water Quality Financial Assistance Advisory Council and that the Department would aim to implement the protocol in its SFY 2005 funding cycle.*

3. Although the Department's reduction in the interest rates charged on new loans has produced the desired substantial increase in demand for SRF assistance, if these rates are maintained for the foreseeable future they could result in a significant decrease in the Washington CWSRF's ability to offer financial assistance in the future. The Department should, as part of the IUP development process for SFY 2005, consider raising new loan interest rates in order to minimize this future adverse impact.

*By the time the Department received the Draft PER it had already established the interest rates for loans to be made in SFY 2004 (the year mentioned in the Draft PER). It agreed to consider increasing interest rates for the SFY 2005 funding cycle to help insure the availability of the Fund in perpetuity.*

Finally, there are two needs that Ecology is currently unable to address. First, as noted in this report, Ecology's ability to effectively administer the Fund would be improved if it could devote more staff to the work. Due to a state-wide hiring freeze imposed by the Governor as part of the state's response to its current severe budget difficulties Ecology is unable to hire additional employees regardless of how they would be funded.

Second, Ecology is gradually exhausting the funds that are available from the EPA capitalization grants to pay the costs of administering the program. The Governor's budget office (the Office of Financial Management), will not support the implementation of

loan fees until the EPA capitalization grants have ended. No one can predict with any degree of certainty when capitalization will end. If Ecology is compelled to contract out work required to administer the fund, such as creditworthiness evaluations, this could hasten the arrival of the date on which available grant funds are exhausted.

Both of these needs will require continuing attention from Ecology and the EPA.

## **Introduction**

This Program Evaluation Report (PER) summarizes the results of the Environmental Protection Agency's (EPA) review of the Washington Clean Water State Revolving Fund for SFY 1999-2001. This review is based on several critical elements:

1. The Intended Use Plans (IUP) for SFY 1999, SFY 2000 and SFY 2001 for the Washington Clean Water State Revolving Fund;
2. The SFY 1999, SFY 2000 and SFY 2001 Annual Reports submitted by the Washington Department of Ecology (Ecology);
3. An independent financial audit of the Washington Water Pollution Control Revolving Fund for SFY 2000 conducted by the Western Audit Division of the EPA's Office of Inspector General for Audits.
4. An EPA review of Washington Clean Water State Revolving Fund related documents maintained in EPA's grant files and of the data in EPA's National Information Management System (NIMS) for the Clean Water Revolving Fund;
5. An on-site file review at the Northwest Regional Office and subsequent discussion with the Department of Ecology.

## **Scope of the Review**

The review examined the performance of the Washington Clean Water State Revolving Fund from July 1, 1998 through June 30, 2001 (the Period). We reviewed the legal, managerial, financial, and technical capabilities of the program. Areas of general interest were compliance with the terms of the Operating Agreement and grant conditions imposed in the EPA capitalization grant awards, certifications and assurances, adherence to specific proposals and progress towards the stated goals and objectives. We also focused on the pace of the program, efforts of the program to generate greater demand, and future administration of the program.

## **Review of Current Program Status**

The State of Washington received its initial capitalization grant in September 1989. In September 2000, the State of Washington received a capitalization grant in the

amount of \$46,758,888. As of June 30, 2001, the CWSRF had received ten capitalization grants for a total of approximately \$248 million. Through the end of SFY 2001 Washington had contributed approximately \$62 million in required matching capitalization funds. Through SFY 2001 the CWSRF is summarized as follows:

• Table 1 Capitalization Summary

Grant ID No.	Grant Amount	Cash Draws during SFY 1999	Cash Draws during SFY 2000	Cash Draws during SFY 2001	Cash Draws thru June 30, 2001	Match	Total Capital
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,605,922	\$ 2,605,922
CS-530001-89	\$ 17,372,811	\$ -	\$ -	\$ -	\$ 17,372,811	\$ 3,423,553	\$ 20,796,364
CS-530001-90	\$ 17,032,749	\$ -	\$ -	\$ -	\$ 17,032,749	\$ 6,232,510	\$ 23,265,259
CS-530001-91	\$ 35,872,484	\$ -	\$ -	\$ -	\$ 35,872,484	\$ 6,862,004	\$ 42,734,488
CS-530001-92	\$ 33,789,195	\$ -	\$ -	\$ -	\$ 33,789,195	\$ 6,703,221	\$ 40,492,416
CS-530001-93	\$ 33,425,073	\$ 190,026	\$ -	\$ -	\$ 33,425,073	\$ 4,782,225	\$ 38,207,298
CS-530001-94	\$ 20,739,807	\$ 629,552	\$ 61,747	\$ -	\$ 20,739,807	\$ 4,249,966	\$ 24,989,773
CS-530001-95	\$ 21,419,838	\$ 7,558,465	\$ 713,966	\$ -	\$ 21,419,838	\$ 4,447,377	\$ 25,867,215
CS-530001-96	\$ 22,509,234	\$ 21,758,956	\$ 117,038	\$ 667,941	\$ 22,509,234	\$ 4,637,741	\$ 27,146,975
CS-530001-97	\$ 23,415,183	\$ 4,340,018	\$ 18,294,690	\$ 253,007	\$ 22,887,715	\$ 4,683,036	\$ 28,098,219
CS-530001-98	\$ 23,417,163	\$ -	\$ 6,163,383	\$ 5,715,109	\$ 11,878,492	\$ 4,683,432	\$ 28,100,595
CS-530001-99	\$ 46,758,888	\$ -	\$ -	\$ -	\$ -	\$ 9,351,778	\$ 56,110,666
TOTALS	\$ 295,752,425	\$ 34,477,017	\$ 25,350,824	\$ 6,636,057	\$ 236,921,035	\$ 62,662,765	\$ 355,809,268

Source: Grant documents and EPA's Integrated Financial Management System

The grantee has been the Washington State Department of Ecology through the Water Quality Program Office (the Program). The State's 20 percent match is appropriated biennially. Washington State provides EPA with a "Letter of Commitment" which shows that the required state match has been committed. The State Treasurer deposits Washington's matching share into the SRF account when a draw is made for the federal share of the SRF funds.

The Washington CWSRF operates as a direct loan program which provides loans to all public entities. As of the end of SFY 2001, it had signed loans totaling \$413,992,371 (adjusting for de-obligations from previously obligated funds) for 263 projects. The loan portfolio consists of Section 212 Water Pollution Control Facilities projects, Section 319 Nonpoint Source Pollution Control projects, and Section 320 Comprehensive Estuary Conservation and Management projects.

Unless the demand for funds is limited, the fund reserves no more than 10% of the available funds on an annual basis for Section 319 Nonpoint Source Pollution Control projects and no more than 10% for Section 320 Comprehensive Estuary Conservation and Management projects. If there are any unobligated funds 120 days after the award of the capitalization grant to the State, they will be either carried over to the next funding cycle or re-offered to other local governments according to the priority order established in the IUP and the limitations established by the program guidelines. Since the program's inception, Ecology has executed 58 loans totaling slightly over \$28.9 million for

nonpoint source water quality projects. In the same time period it has executed 22 loans for slightly over \$10 million for estuary projects.<sup>2</sup>

Interest rates are determined by the length of the repayment period. The terms of the SRF program are established at 75%, 60%, and 40% of the Bond Buyers Index for 15-20, 6-14, and 2-5 year terms respectively.<sup>3</sup> For SFY 1999 and 2000, this meant that rates for those terms were 4.0%, 3.2%, and 2.1%. Borrowers receiving loans for 0-5-year terms, with a construction period of less than two years, continue to receive zero percent interest loans. At the beginning of each funding cycle, interest rates are established for loans with a six-year return or more. The market rate is determined by checking the Bond Buyers Index for Tax Exempt Municipal Bonds and the SRF interest rates are set accordingly. If the market index goes down at least .1 percent below what was established at the beginning of the funding cycle and prior to the issuance of the Draft Intended Use Plan, SRF interest rates will be adjusted downward. If the market index goes up SRF interest rates established at the beginning of the funding cycle will remain the same.

Additionally, Ecology uses the state's Centennial Clean Water Fund to assist communities facing economic hardships. Ecology's procedures allow water quality financial assistance applicants to request hardship assistance for publicly owned treatment works projects. When Ecology receives such a request, it compares the expected user charges for the treatment works to median household income in the project's proposed service area. If the expected user charges would exceed 1.5% of median household income, Ecology will reduce the interest rate on the State Revolving Fund Loan to 0% in order to reduce the resulting user charges to a level that will be below 1.5% of median household income. If even a 0% loan would result in user charges that would exceed 1.5% of median household income, Ecology will offer a grant from the Centennial Clean Water Fund that is of sufficient size to produce the desired reduction in user charges (if available grant funds are sufficient).

Late in SFY 1999 during the development of the SFY 2000 Intended Use Plan, the EPA and the Department of Ecology determined that, even if Ecology was able to execute loans to all of the potential eligible borrowers on the Draft IUP's proposed offer list, the program would not do enough business to justify the award of an EPA capitalization grant for SFY 2000. All of the planned loans could be executed with funds already available in the Fund. This set of circumstances appeared to be the result of two distinct conditions:

1. Ecology's existing system for tracking the status of funds available for new loans is both cumbersome and subject to errors.
2. Ecology's interest rates for loans from the Washington Water Pollution Control Revolving Fund, although typical of many comparable programs, were high enough to "limit" demand for loans; that is, at the price being offered by Ecology the supply of money exceeded the demand.

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<sup>2</sup>

The numbers are from EPA's National Information Management System as of the end of SFY 2001.

<sup>3</sup>

These rates apply to projects that take two or more years to complete after the effective date of the loan agreement.

Ecology addressed this challenge in two ways during the development of the SFY 2001 IUP. First, it increased its efforts to market the program to a wider range of potential customers. This increased marketing consisted of increasing the availability of information concerning the program on Ecology's web site and increasing promotion of the program by the staff in Ecology's regional offices. Additionally, members of the Water Quality Financial Assistance Advisory Council were and are always encouraged to "get the word out" to their "constituents" about Ecology's water quality financial assistance programs. Second, after an evaluation of the financial condition of the Fund and of the potential effects of loan interest rate changes on the long-term ability of the Fund to offer financial assistance to eligible water quality projects, it reduced the loan interest rates effective in SFY 2001.

In an amendment to the Ecology regulations (Washington Administrative Code or WAC) that govern the Washington Water Pollution Control Revolving Fund, Ecology restructured how interest rates would be set. For loans with repayment periods of up to five years, the interest rate would normally be set at 30% of the market rate. For loans with repayment periods of more than five years but no more than twenty years, the interest rate would normally be set at 60% of the market rate. The WAC gives the Department the discretion to establish even lower interest rates if a financial analysis demonstrates that such lower rates will not be "detrimental to the perpetuity" of the fund. For SFY 2001 the Department exercised that discretion to establish even lower rates. Loans with terms of up to five years would bear an interest rate of 0.5%, while loans with terms of from six to twenty years would bear an interest rate of 1.5%. The combination of these changes resulted in requests for over \$228,000,000 in loans. The resulting IUP was able to offer approximately \$66.4 million in assistance and the EPA was able to award the capitalization grants from both the FFY 1999 and FFY 2000 allotments.

The costs of administering the CWSRF are paid for with money drawn from the Fund. The Clean Water Act allows the states to use money from the Fund up to an amount equal to 4% of the cumulative EPA capitalization grant awards. Through SFY 1999, Washington had used \$6,270,732 or 2.5% of the total EPA capitalization grants to date. In SFY 2001, Washington used \$1,093,887 for administration of the Fund, for a cumulative usage rate of 2.8%. Ecology does not charge any origination or loan servicing fees.

## **SFY1998 Program Evaluation Report Follow-Up**

In the last complete Program Evaluation Report for the Washington Water Pollution Control Revolving Fund the EPA offered several recommendations to the Department of Ecology. Following the delivery of the Final PER to the Department, the EPA and the Department met and discussed those recommendations. In the years covered by this PER, the Department has addressed or is addressing some of those recommendations. This section of the PER summarizes those recommendations and EPA's observations about the actions that the Department of Ecology has taken to address them.

1. The Fund needs to revolve more rapidly.

As noted earlier, the Department of Ecology has taken strong action to increase the dollar volume of new loan commitments that the Fund is executing each year. After analyzing the potential effects of reducing loan interest rates on the Fund's future ability to offer assistance, it reduced the interest rates being offered on new loans substantially. Ecology also intensified its efforts to market the program to the nonpoint source "community."

As it continued to refine the priority system used to rank projects that are applicants for financial assistance, it modified its policies concerning the use of the state's Centennial Clean Water Fund (a state taxpayer financed water quality financial assistance "source") so that this source would only be used for loans, except where the applicant met established financial hardship criteria. This change became effective for the development of the SFY 2002 Intended Use Plan (during SFY 2001).

This suite of actions has resulted in a considerable increase in demand for loans from the Washington Water Pollution Control Revolving Fund and continuing increases in the dollar volume of loans actually executed in each fiscal year. These actions are continuing to show substantial results.

2. Washington's water quality and aquatic habitat could benefit considerably if the Fund's priority system is more tightly integrated with the State's overall water quality management program and its developing Salmon Recovery Plan.

Since the EPA offered this recommendation, the Department of Ecology, in consultation with the Washington Water Quality Financial Assistance Advisory Council, has revised and adjusted the priority system that it uses to rank applications for water quality financial assistance, each year. These revisions have improved the system's focus on water quality and aquatic habitat benefits. They also explicitly integrated salmon recovery into the ranking system.

3. In order to more effectively manage its financial assets, the Fund needs to develop a thorough loans receivable tracking system.

Ecology initiated the development of the software for an automated loans receivable tracking system in SFY 2000. This software development project has an estimated project cost of \$948,021. The project schedule called for the completion of the preliminary system design by August 2001 and that work is complete. The schedule also calls for completion of the detailed design by May 30, 2002. Development and testing of the software is scheduled to occur during the remainder of 2002 with a transition to "production" during early 2003.

4. The EPA recommended that Ecology review the work load that it is facing in administering the Fund and determine whether additional staff are necessary to manage that work properly.

The EPA and Ecology discussed this subject during the follow-up meeting in 1999. At that time Ecology's management indicated that it did not believe that the Department could secure the support needed in the state legislature necessary to

finance the addition of staff to the program. The EPA agreed that it would be a challenging marketing job. Ecology decided to forgo any additional evaluation of the program's work load and staffing requirements.

EPA continues to believe that the administration and management of the Washington Water Pollution Control Revolving Fund would benefit considerably from increasing staffing. The workload that Ecology must handle will only increase as it puts in place a system for assessing the credit worthiness of loan applicants.

We therefore continue to recommend that Ecology increase the staffing devoted to the administration of the Fund. We recognize that Ecology may need to obtain authorization from the state legislature for any increase in the number of positions devoted to the program. We note that Ecology does have, as of the end of SFY 2002, approximately \$3.1 million in funds available from already awarded EPA capitalization grants that could be used to pay the expenses associated with the additional staffing.

*Ecology noted in its response to this continuing recommendation that it is currently under a hiring freeze based on direction from the Governor to all state agencies to reduce their number of full time equivalent employees, regardless of how they are funded.*

5. EPA also noted that in recent years Ecology has been using all of the money available from the Fund for administration of the program and suggested that Ecology should start considering establishing an collecting loan fees to provide a long-term revenue source to pay for the program's administrative costs, after EPA capitalization grants end.

Ecology and the EPA also discussed this subject during our 1999 follow-up meeting. At that time Ecology believed that the state legislature simply would not approve an proposal to establish and collect loan fees. The EPA concurred that it would be a difficult to obtain the required authority from the legislature and Ecology has not done any work to develop a loan fee proposal. In the intervening years, on an annual basis, Ecology has been spending slightly over 4% of the annual capitalization grant on the administration of the program. It is, thus, continuing to "eat into" its reserve. Thus, EPA continues to believe that, for the long-term, Ecology needs to obtain authority to collect loan fees. This need would increase if Ecology contracts out the creditworthiness assessment function or other functions.

*In its response to the draft PER, Ecology noted that it has discussed this issue with the Governor's budget office (the Office of Financial Management) and that this office has indicated that it won't support a loan origination fee until the Department is no longer receiving funds for program administration from the EPA capitalization grants. Ecology recognizes that such fees need to be implemented before these capitalization grant funds are exhausted so that it will have funded a working reserve to pay administrative costs after EPA capitalization has been ended by the Congress.*

## Review of Financial Management Practices

The Clean Water Act, the CWSRF program regulations at 40 C.F.R. 35.3100 et. seq. and the Operating Agreement include a series of requirements that speak to how a Clean Water State Revolving Fund program manages the funds that are under its care. This portion of the report discusses how the Washington program has addressed those requirements.

### Acceptance of Grant Payments [40 C.F.R. 35.3135(a)]

For SFY 1999, 2000, and 2001, the state agreed to accept grant payments in the increments shown in Table 2. This table also shows the actual cash draws from the EPA Automated Clearinghouse payment system. As noted later in this report, the declines in cash draws from the Federal Treasury in 2000 and 2001 were the result of Ecology's practice of funding loans that refinance existing debt exclusively with cash drawn from the Fund's invested cash balances.

• Table 2 Payments

Federal Period	Grant Payments	Cumulative Grant Payments	Quarterly Cash Draws	Cumulative Cash Draws
4Q FY 98	\$ 12,730,207	\$ 225,576,374	\$ 9,532,138	\$ 180,030,339
1Q FY 99	\$ -	\$ 225,576,374	\$ 9,449,691	\$ 189,480,030
2Q FY 99	\$ 2,502,297	\$ 228,078,671	\$ 9,347,213	\$ 198,827,243
3Q FY 99	\$ 10,457,429	\$ 238,536,100	\$ 6,147,975	\$ 204,975,218
Period Totals	\$ 25,689,933		\$ 34,477,017	
4Q FY 99	\$ 10,457,437	\$ 248,993,537	\$ 11,408,002	\$ 216,383,220
1Q FY 00		\$ 248,993,537	\$ 6,704,899	\$ 223,088,119
2Q FY 00		\$ 248,993,537	\$ 3,173,605	\$ 226,261,724
3Q FY 00		\$ 248,993,537	\$ 4,064,318	\$ 230,326,042
Period Totals	\$ 10,457,437		\$ 25,350,824	
4Q FY 00		\$ 248,993,537	\$ 1,541,160	\$ 231,867,202
1Q FY 01		\$ 248,993,537	\$ 1,393,973	\$ 233,261,175
2Q FY 01	\$ 15,586,296	\$ 264,579,833	\$ 851,113	\$ 234,112,288
3Q FY 01	\$ 15,586,296	\$ 280,166,129	\$ 2,849,811	\$ 236,962,099
Period Totals	\$ 31,172,592		\$ 6,636,057	

### State Match [40 C.F.R. 35.3135(b)]

As previously noted in the program summary, in awarding capitalization grants EPA has relied on the State to provide a "Letter of Commitment" which shows that the required state match has been committed. The State Treasurer deposits Washington's matching share into the SRF account when a draw is made for the federal share of the SRF funds. The State has provided matching funds of \$53,310,986. The table below summarizes the match contributions that Washington has made to its CWSRF, including

the contributions made during SFYs 2000 and 2001. The table demonstrates that Washington continues to be more than “current” in contributing the amount of matching funds required by the Clean Water Act.

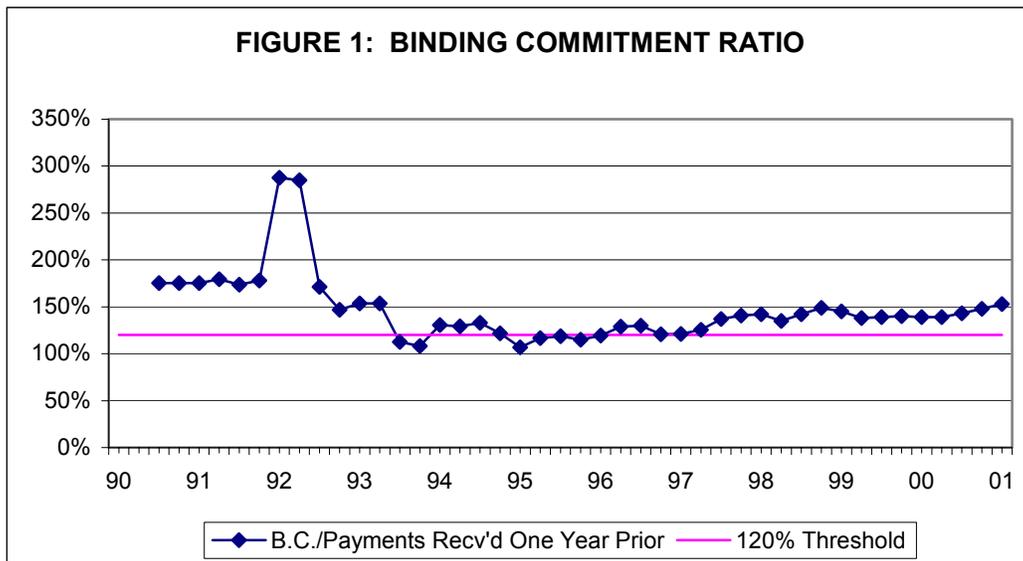
• Table 3 State Match Compliance

SFY99	Total Federal Payments at 6/30/99	Total Match at 6/30/99	Match %
	\$ 248,993,537	\$ 53,310,987	21%
SFY00	Total Federal Payments at 6/30/00	Total Match at 6/30/00	Match %
	\$ 248,993,537	\$ 53,310,987	21%
SFY01	Total Federal Payments at 6/30/01	Total Match at 6/30/01	Match %
	\$ 295,752,425	\$ 62,662,765	21%

**Binding Commitments [40 C.F.R. 35.3135(c)]**

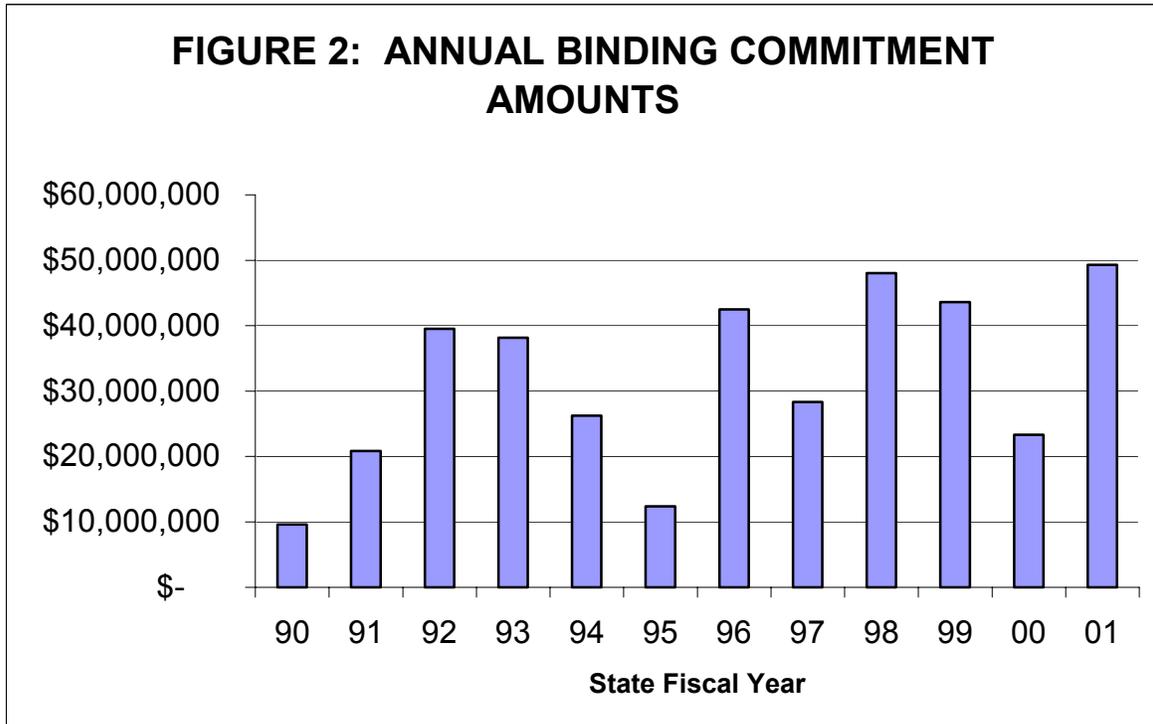
The Clean Water Act requires that one year after a CWSRF has taken a payment for its fund, it must have completed cumulative binding commitments for new loans in an amount equal to at least 120% of the cumulative grant payments. As of June 30 2000, Ecology had taken grant payments totaling \$248,993,537. As of June 30 2001, it had completed binding commitments for \$413,992,371 in projects. The ratio of binding commitments to cumulative payments received one year earlier was 166%, which handily exceeds the statutory threshold of 120%. Figure 1 below shows Ecology’s performance with regard to binding commitments over the years.

• Figure 1 Binding Commitment Ratio



Approximately \$49 million in binding commitments were completed in SFY 2001, double the amount in the previous period, and the largest amount in any period to date. Figure 2 below shows new loan activity by year through SFY 2001.

• Figure 2 Annual Binding Commitment Amounts



**Timely and Expeditious Use of Funds [40 C.F.R. 35.3135(d)]**

The Clean Water Act and the CWSRF program regulations both require that states use the funds available to their CWSRFs in a timely and expeditious manner. This requirement is aimed at (a) getting projects under construction and completed quickly, (b) putting the original capitalization funds to work building projects and earning interest to maintain and increase the value of the fund and (c) ensuring that revenues accruing to the funds (repayments and interest earnings) are committed to new projects within a reasonable period of time. One indicator of a state’s success is the proportion of the federal capitalization grants that have been disbursed to loan recipients. As of June 30, 1999, the Washington CWSRF still had \$44 million in awarded but undrawn Federal funds. However, one year later, as shown in Table 4 below, only \$18 million remained to be drawn. The trend for the past three years shows a very positive increase in the ratio of cumulative cap grant outlays to cumulative cap grants. This is also consistent with the national average shown by the NIMS data.

• Table 4 Cumulative Outlays as a % of Total Capitalization Grants

SFY	Cumulative Grants	Cumulative Outlays	Ratio	NIMS*
99	\$ 248,993,537	\$ 204,975,218	82%	83%
00	\$ 248,993,537	\$ 230,326,042	93%	85%
01	\$ 295,752,425	\$ 236,962,099	80%	86%

\* Information from EPA's National Information Management System (NIMS)

Beginning with this annual review, one sample payment request will be reviewed to trace the flow of CWSRF funds to the loan recipient. A summary of the transaction can be found below.

This transaction review is of a payment to the City of North Bend for WWTP work. The city treasurer submitted payment request #3 using a standard state invoice voucher (Form A-19-1A) sometime in April 2001; she neglected to date the request when signing it. The request was date stamped April 20, 2001 when it was received by Ecology. The payment request, which covered the billing period of January 1, 2001 through March 31, 2001, was for \$45,734, and was approved by a DOE project officer on April 27, 2001. There was also a question about why the amount shown on the invoice to North Bend from the contractor (\$45,734.60) was more than the amount on the invoice from North Bend to Ecology (\$45,536.12). A staff member from Ecology explained that the difference was due to a subtraction error, and that it was corrected on the next disbursement.

Another dimension to the timely expenditure of funds requirement is the overall pace of the program, i.e., how fast does a revolving fund commit and expend not only first round funds but second and subsequent rounds as well. As of June 30, 2000, the State had roughly \$79 million in cash and cash equivalents (composed of loan interest earnings, loan repayments, and interest earned on the fund balance) invested in the Washington State Treasury investment pool that had not yet been disbursed to new loans. After the subsequent record year in SFY 2001, this balance had decreased to approximately \$69 million. In order for the CWSRF to truly revolve, these funds need to be both committed and disbursed. However, at least in the short term, this particular trend appears to bode well for program pace. Tables 5 through 7 display information showing the earnings of the Washington CWSRF and showing, indirectly, the pace at which projects are being constructed.

• Table 5 Cumulative Loan Repayments and Interest Earnings

	SFY99	SFY00	SFY01
Total Disbursements	\$ 42,432,780	\$ 39,886,785	\$ 39,549,126
Federal Cash Draws	\$ 34,477,017	\$ 25,350,824	\$ 6,636,057
State Portion of Disbursements**	\$ 7,955,763	\$ 14,535,961	\$ 32,913,069
Federal Cash Draws as a % Disbursements	81.25%	63.56%	16.78%

• Table 6 Pace of Loan Issuance

	Through SFY99	Through SFY00	Through SFY01
Total Project Assistance Provided*	\$ 337,793,269	\$ 364,687,090	\$ 413,992,371
Total Project Funds Available**	\$ 357,281,154	\$ 384,268,363	\$ 460,485,106
Pace of Loan Issuance Ratio	95%	95%	90%
NIMS Ratios	88%	90%	91%

\* This is virtually the same as Total Binding Commitments, except that this definition is intended to include adjustments due to refinancing of short-term and long-term debt. This figure does not account for deobligations. The current cycle of updating NIMS data should be used to provide adjustments to this figure.

\*\* In this case, equal to cumulative federal and state contributions, plus (re)payments of loan P&I and fund balance earned interest, less funds reserved for administration

• Table 7 Pace of Construction

	Through SFY99	Through SFY00	Through SFY01
Total Project Disbursements***	\$ 228,949,359	\$ 268,836,144	\$308,385,270
Total Project Commitments	\$ 337,793,269	\$ 364,687,090	\$413,992,371
Pace of Construction Ratio	68%	74%	74%
NIMS Ratios	84%	83%	83%

\*\*\* This line describes disbursements for project assistance only (administration disbursements are not included).<sup>4</sup>

The figures in Table 5 , above, do not reflect disbursements that are shown in Table 7. The Table 7 data indicates a slightly slower pace of construction than that national average.

Finally, one more aspect of expeditiousness is the achievement of certain project milestones. During SFY 2001, 19 more projects finished the construction phase and initiated operations, for a cumulative total of 124, while another 19 new projects started construction.

### **Cash Draw Rules [40 C.F.R. 35.3155(d) and 35.3160]**

During SFY 2001, the State requested cash draws in the amount of \$25,350,824. The regulations require that cash disbursed to borrowers be drawn proportionately from the EPA capitalization grants and the state match. As shown in Table 8, below, for the past three fiscal years Ecology has continued to comply with this requirement. The steep decline of federal draws in SFY00 indicates a much greater reliance on repayments as an additional source of funding. In SFY01, the even sharper shift to non-Federal funds for disbursements represents a complete reversal from the proportional draw rate seen earlier in the program. This was partly the result of Ecology's practice of meeting its payment obligations to borrowers who are refinancing existing debt exclusively with disbursements from repayments and Fund earnings. Ecology executed approximately \$17 million in such loans in SFY 2001.

<sup>4</sup>

Tables 5-7 all derive their data from NIMS

• Table 8 Cash Draw Proportionality

	SFY99	SFY00	SFY01
Total Disbursements	\$ 42,432,780	\$ 39,886,785	\$ 39,549,126
Federal Cash Draws	\$ 34,477,017	\$ 25,350,824	\$ 6,636,057
State Portion of Disbursements**	\$ 7,955,763	\$ 14,535,961	\$ 32,913,069
Federal Cash Draws as a % Disbursements	81.25%	63.56%	16.78%

**Outlay Management [40 C.F.R. 35.3155(b)]**

Clean Water State Revolving Fund programs are no longer required to forecast their cash draws from the EPA Automated Clearinghouse (EPA-ACH). The limiting factor for cash draws now is the payment schedule submitted with each capitalization grant application.

**Generally Accepted Accounting Principals (GAAP) [40 C.F.R. 35.3135(h)]**

The states are required to follow Generally Accepted Accounting Principals (GAAP) in maintaining the financial records for their Clean Water State Revolving Funds. In other words, the fiscal controls and accounting procedures must be sufficient to assure proper accounting for payments received by the SRF, disbursements made by the SRF, and SRF balances at the beginning and end of the accounting period.

In each of the three years covered by this PER, the state submitted, as a part of its Annual Report, financial statements that the state says were prepared in accordance with GAAP. However, for SFY 1999 and SFY 2001, no independent audit of these financial statements was prepared or submitted. Absent an independent audit, the EPA is unable to make a finding regarding whether the unaudited financial statements were, indeed, prepared in accordance with GAAP.

EPA's Office of Inspector General for Audits, Western Division, completed a financial audit of the Washington Water Pollution Control Revolving Fund for SFY 2000 on March 31, 2001. The audit produced audited financial statements for SFY 2000 prepared in accordance with GAAP for the Fund and also resulted in Auditor's reports on "Internal Control Structures" and "Compliance with the Requirements Applicable to the EPA's SRF Program." The report on "Internal Control Structures" found no material weaknesses in the Fund's internal control structures. The report on "Compliance" identified no compliance issues.

**Perpetuity [40 C.F.R. 35.3100(a)]**

SRF programs are to be designed and operated so that the SRF will continue to provide assistance for water pollution control activities in perpetuity. The financial statements presented with the annual reports were analyzed in an effort to assess the CWSRF's financial integrity and its ability to operate in perpetuity.

The investment yield (shown in Table 9 below) reflects average interest earning rates the State Treasurer gets in the marketplace. In each year these yields were slightly above the national average. It is important to note that higher return rates experienced on these investments can be used to offset any potential for “losses” due to inflation in the loan yield.

• Table 9 Investment Yield

Fiscal Year	Investment Earnings	Avg. Investment Assets	Rate of Return
SFY 99	\$2,681,794	\$53,243,182	5.0%
SFY 00	\$3,542,958	\$71,945,500	4.9%
SFY 01	\$3,628,000	\$74,275,335	4.9%

Source: Annual reports.

The loan portfolio yield for the past three state fiscal years is shown in Table 10 below. It suggests that, despite the portion of the loan portfolio that is at an interest rate of 0%, there is a reasonable balance with the loans at higher interest rates, ensuring a stable return. More importantly, the return rates continue to be greater than the annual increases in construction costs as measured by the Engineering News Record’s Construction Cost Index (CCI).

• Table 10 Loan Portfolio Yield

SFY	Loan Interest Earnings	Average Loans Outstanding	Rate of Return	CCI
99	\$6,566,486	\$206,583,903	3.18%	2.1%
00	\$8,440,851	\$257,539,506	3.28%	2.8%
01	\$7,963,350	\$257,539,506	3.09%	1.9%

Source: Annual reports, NIMS data, CCI data (\*adjusted to SFY).

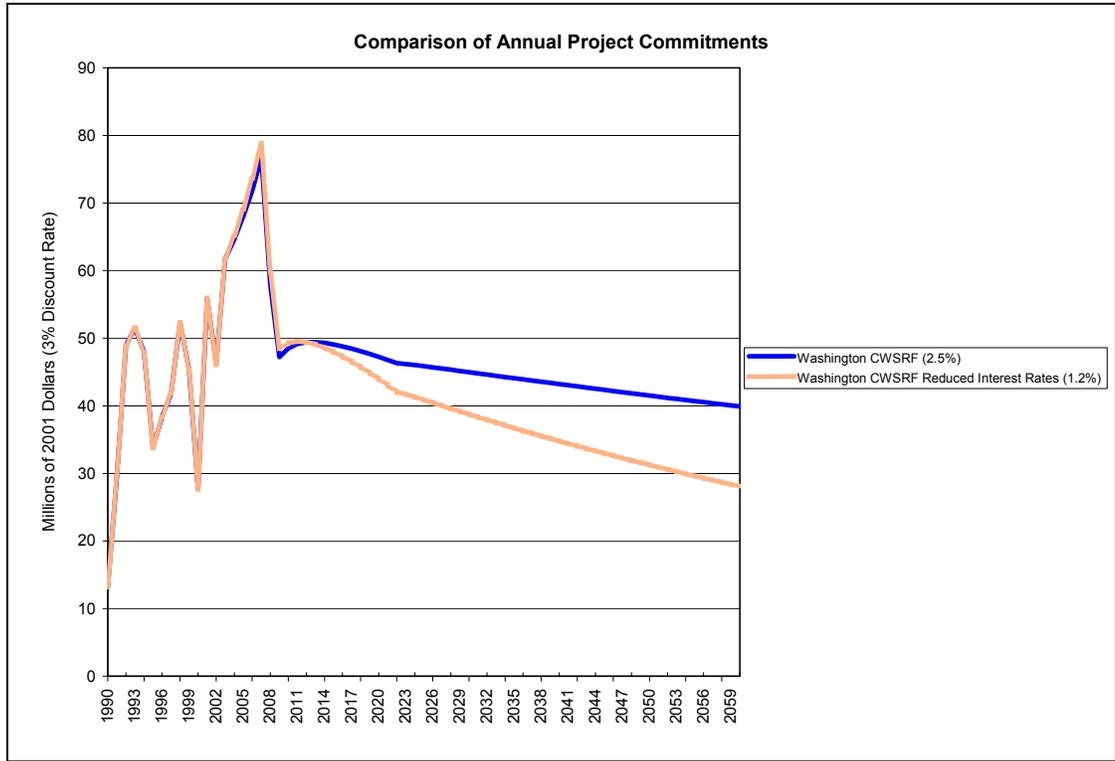
Historically, the weighted average interest weight for the loans executed in any one year has ranged between a high of 4.8% at the program’s inception to a low of 2.8% in SFY 1997. As noted earlier, in SFY 2000 Ecology reduced the interest rates considerably in order to draw in more business. The resulting weighted average interest rates for new loans have been correspondingly lower. This rate was 0.6% in SFY 2000 and 1.2% in SFY 2001.<sup>5</sup> These rates, if sustained in future years, would have a significant effect on the Washington CWSRF’s ability to offer financial assistance over the long term. To evaluate the magnitude of this potential effect, we use the SRF Financial Planning Model developed by Northbridge Environmental Management Consultants for the EPA and the state SRF programs.

The model runs used actual Washington CWSRF data through the end of SFY 2001 and projections beyond that date. The results, presented in the graphs below, indicate that if Washington continues to offer its current rates for the foreseeable future, the annual loan volume that can be sustained will decline substantially, after new

<sup>5</sup> The corresponding rate for SFY 2002 was 0.5%

capitalization from the EPA ends (assumed to be FFY 2007). The model runs suggest that a modest increase in loan interest rates could reduce this impact considerably. Figure 3, below, displays those results.

• Figure 3 Comparison of Annual Project Commitments at Different Interest Rates



### Loan Applicants' Creditworthiness

Both the Clean Water Act, at § 603(d)(1)(v), and the program regulations, at 40 C.F.R. §35.3120(a)(iv), require that loan recipients establish a dedicated source of repayment for the loans that they receive from a state water pollution control revolving fund. The Department does not formally evaluate a loan applicant's ability to repay a requested loan. Instead, it relies on certifications in the standard loan agreement by the borrower and its legal counsel that there is a dedicated source of repayment and that that source is legally available to meet the borrower's debt service obligations to the Fund.

To provide some financial security for the Fund, each loan agreement requires that the borrower establish and fund a debt service reserve in the early years of the loan's repayment period. Each loan agreement also provides that in the event of a default by the borrower, Ecology may intercept any state aid due to the borrower to repay the outstanding balance on the loan. However, to our knowledge Ecology does not, during the loan origination process, evaluate the level of state aid typically received by a loan applicant to determine whether that aid would be large enough to meet the applicant's repayment obligations in the event of a default on the loan under consideration.

Applicable national guidance suggests that states should have procedures in place for assuring the adequacy of a borrower's dedicated source of repayment. In our view, this implies that before the state enters into a loan agreement with a borrower (loan applicant) the state will have completed and documented an assessment of the adequacy of the loan applicant's proposed repayment source. This might take the form of a formal credit worthiness evaluation or financial capability assessment. Although the EPA recognizes that the Washington Water Pollution Control Revolving Fund has never experienced a default by a borrower, we consider this omission from the Department of Ecology's procedures to be serious and urge the Department to develop and implement an appropriate protocol as soon as possible.

In our view there are four essential elements to a prudent system for credit worthiness evaluation that we would expect to see in any system used by a state water pollution control revolving fund:

1. Explicit pass/fail evaluation criteria that address economic and other factors relevant to a loan applicant's ability to repay a loan over time;
2. Guidance governing how reviewers will review and assess a loan application against those criteria and how reviewers will weigh the results when the results for different criteria conflict;
3. A clearly defined process for doing and documenting the mathematical calculations to demonstrate that the proposed revenue stream would be sufficient to amortize the loan and meet any anticipated coverage and debt service reserve requirements;
4. A decision on the acceptability of the credit worthiness evaluation and the recommendations resulting from it (whether to offer a loan and, if so, with what financial conditions attached to the loan) by an appropriate management official that is documented in the record.

## **Review of Project Management Practices**

The Clean Water Act and the CWSRF program regulations also contain a series of requirements that address how Clean Water State Revolving Fund programs are to manage projects that receive loans and how those projects are to be planned and constructed. Our review of those aspects of the Washington CWSRF program is discussed in this section of the Program Evaluation Report.

### **Compliance with Title II Requirements [40 C.F.R. 35.3135(f)]**

Until September 30, 1994, the Clean Water Act, at §602(b)(6) required that publicly owned treatment works projects receiving assistance from a state water pollution control revolving fund comply with a suite of 16 provisions in the Act established in Title II. These requirements have been called the "equivalency requirements." The EPA's oversight protocol requires that we verify that projects subject to them have, indeed, complied with them. The way in which EPA meets this oversight obligation is through

periodic reviews of the project files maintained by the Department of Ecology. As of this writing, the EPA had only reviewed a limited number of project files and therefore can't make a finding as to whether the Department of Ecology has met its full compliance obligation under this provision of the Clean Water Act. As part of its continuing oversight, the EPA will with each annual review examine additional project files to verify that the Ecology program has applied the Title II provisions to enough projects to meet its obligations under §602(b)(6) of the Clean Water Act.

#### **Recipient Accounting [40 C.F.R. 35.3135(i)]**

Loan recipients are required to submit annual financial audits of their programs to the Office of the Washington State Auditor. Under the terms of the loan agreement, the submitted audit reports are reviewed by the State Auditor as part of an ongoing effort to ensure the continued financial health of the CWSRF.

#### **Environmental Reviews [40 C.F.R. 35.3140]**

Washington has an approved State Environmental Review Process (SERP) and reported conducting environmental reviews on all Section 212 design and construction projects. Washington's reviews are conducted pursuant to the Washington State Environmental Policy Act (SEPA) and implementing regulations in the Washington Administrative Code. SEPA, in its original form, was written by the same author as the National Environmental Policy Act.

The environmental reviews for each of the projects reviewed resulted in a Determination of Nonsignificance (DNS), the equivalent under Washington law of a Finding of No Significant Impact under the National Environmental Policy Act. In each instance the environmental review that resulted in the DNS determined that the environmental laws included in the Federal cross cutting authorities were either not "triggered" by the project or would be adequately addressed by the project as designed.

#### **MBE/WBE Commitment and Reporting [40 C.F.R. 35.3145(d)]**

The EPA has an obligation under Federal civil rights laws and a series of associated Executive Orders issued by the President of the United States to insure that minorities and women are given a fair opportunity to participate in and benefit from programs that are financed in whole or in part with funds made available by the EPA. One of the ways that EPA meets this obligation is to encourage the participation of minority owned (MBE) and woman owned (WBE) business enterprises in the work being financed by the state water pollution control revolving funds. MBE/WBE percentage goals are negotiated annually and identified in each capitalization grant. For the years included in this review the negotiated goals were 10% participation by MBEs and 6% participation by WBEs.

During the period covered by this PER, the Department has not reported accurate dollar amounts of MBE or WBE participation in the CWSRF program to the EPA. Additionally, during the period of this review, Ecology's submissions were often late. Ecology is responsible for ensuring that all loan recipients obtaining CWSRF funds send EPA Form 5700-52A, *MBE/WBE Utilization under Federal Grants, Cooperative*

*Agreements and Other Federal Assistance*, to the Department of Ecology. The Department is obligated to collect and aggregate EPA Form 5700-52A, *MBE/WBE Utilization under Federal Grants, Cooperative Agreements and Other Federal Assistance*, from all loan recipients receiving CWSRF funds and submit this information on a quarterly basis to EPA in a timely manner. These reports are normally due 30 days after the end of the quarter. This omission needs to be fixed as soon as possible. As noted in the Executive Summary, Ecology has agreed to take appropriate action to correct this problem. Table 11, below, shows the reported activity.<sup>6</sup>

• Table 11 EPA Forms 5700-52 Submitted

Federal Period	Dollar Amount of MBE Activity	% of MBE Activity	Dollar Amount of WBE Activity	% of WBE Activity	Dollar Amount of Procurement	Date Submitted to EPA
4Q FY98						
1Q FY99	\$0.00	#DIV/0!	\$0.00	#DIV/0!	\$0.00	February 18, 1999
2Q FY99	\$0.00	0.00%	\$177.36	5.56%	\$3,191.14	May 20, 1999
3Q FY99	\$0.00	0.00%	\$42.34	2.58%	\$1,638.24	September 8, 1999
4Q FY99	\$0.00	0.00%	\$86.40	5.30%	\$1,630.01	December 16, 1999
1Q FY00	\$0.00	0.00%	\$0.00	0.00%	\$2,343.11	March 10, 2000
2Q FY00	\$0.00	0.00%	\$0.00	0.00%	\$7,431.43	June 30, 2000
3Q FY00	\$0.00	0.00%	\$139.73	4.23%	\$3,301.14	August 18, 2000
4Q FY00	\$0.00	0.00%	\$0.00	0.00%	\$8,180.38	February 1, 2001
1Q FY01	\$0.00	0.00%	\$0.00	0.00%	\$4,481.41	February 5, 2001
2Q FY01	\$0.00	0.00%	\$150.00	3.56%	\$4,218.14	May 4, 2001
3Q FY01	\$0.00	#DIV/0!	\$0.00	#DIV/0!	\$0.00	August 3, 2001
TOTAL	\$0.00	0.00%	\$595.83	1.64%	\$36,415.00	

Our review of other project files indicated that the project owners were properly apprised of their MBE/WBE obligations by Ecology and that the owners, as well as the winning bidders, implemented the six affirmative steps outlined in applicable guidance.

### Field Inspections and File Review

During the on-site review project files for the City of North Bend Wastewater Treatment Plant Upgrade, Olympus Terrace, Vashon, and Bremerton were reviewed. The following is a brief summary of the file reviews for these projects.

#### North Bend WWTP Improvements, Phase IIA and IIB (Loan L0000010)

The wastewater collection and treatment system in North Bend was operating under a consent order for severe infiltration and inflow problems, had experienced multiple separate sewer overflow events, had received numerous odor complaints, and

<sup>6</sup> The "DIV/0" errors result from the denominator in the formula being zero, due to the reporting errors.

was not meeting the conditions of its NPDES (waste discharge) permit for disinfection and chlorine removal before discharge into the Snoqualmie River. In Phase I of the project, more than \$1 million in grant and loan funds were obtained to help pay for the replacement of 6,500 feet of transmission lines, after exploration with a remotely controlled TV camera showed some areas of the system (about 20% of which was corrugated ditch pipe) holding water about as well as a sieve. In Phase II, a small loan for \$104,000 was used for design work. For the current portion of the project (Phase IIA and IIB), a combination CWSRF loan and state grant totaling \$2,980,362 was obtained for installation of a UV system for effluent disinfection, a new headworks, oxidation ditch modifications, and odor control facilities. The loan for \$2,486,884 was offered for 20 years at 1.5%, and was signed January 26, 2000. The results of the file review are summarized in the tables in the Project Management Reviews Appendix at page i, below. [The project “counts” as complying with or addressing all of the applicable Federal cross cutting authorities. If necessary it would also count as complying with all of the applicable equivalency requirements under Title II of the Clean Water Act.]

**Bremerton-Kitsap County Health District Local Loan Program (Loan L0100003)**

This loan was used to create a local loan fund to finance the repair of failing septic systems and the implementation of best management practices on local farms. Several streams in the county have been listed under §303(d) of the CWA due to failing septic systems. The \$300,000 loan is to be repaid over a period of five years and carries an interest rate of 0%. The loan is secured by county septic tank tipping fees. The results of the file review are summarized in the tables in the Project Management Reviews Appendix at page vi, below. [The project “counts” as complying with or addressing all of the applicable Federal cross cutting authorities. The “equivalency” requirements would not apply to this project in that it is not a publicly owned treatment works project.]

**Vashon Sewer District Beulah Park/Cove Hazard Area Wastewater Facilities Construction Project (Loan L9800021)**

This project resolved a declared severe public health hazard due to failing on-site sewage systems. The project included the design and construction of the following facilities:

- A vacuum sewage collection system
- A sewage pumping station and force main
- A recirculating gravel sewage treatment plant with disinfection that discharges to a subsurface drip irrigation system for final effluent disposal.

The District received a \$1,010,000 state grant that paid for most of the costs of building the project. Loan proceeds of \$373,750 were used to finance the District’s administration of the construction project. The results of the file review are summarized in the Project Management Reviews Appendix at page xi, below. [The project “counts” as complying with or addressing all of the applicable Federal cross cutting authorities. The absence of information about any capitol financing plan in the file would prevent this

project from being counted as meeting all of the applicable equivalency requirements under Title II.]

**Olympus Terrace Sewer District Open Channel UV Disinfection System  
(Loan L0000009)**

The District received a loan of \$500,000 with a fifteen year amortization period at an interest rate of 1.5%. The loan was used to finance the construction of an Ultraviolet Disinfection system on the District's existing wastewater treatment plant. The addition of the disinfection system "uprated" the treatment plant so that it would be adequate to service the design flows through the year 2012. The results of the file review are summarized in the Project Management Reviews Appendix at page xvi, below. [The project "counts" as complying with or addressing all of the applicable Federal cross cutting authorities. If necessary this project could count towards meeting the "equivalency" requirements established in Title II of the Clean Water Act.]

**Eligible Activities [40 C.F.R. 35.3115, 3120 and 3125]**

The Clean Water Act requires that Clean Water State Revolving Funds limit themselves to providing any of seven specific types of financial assistance. Those seven types of assistance include:

1. Making loans at or below market rates of interest to finance water pollution control projects;
2. To buy or refinance the debt obligation of municipalities and intermunicipal and interstate agencies within the State at or below market rates, where such debt obligations were incurred after March 7, 1985;
3. To guarantee, or purchase insurance for, local obligations where such action would improve credit market access or reduce interest rates;
4. As a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of such bonds will be deposited in the fund;
5. To provide loan guarantees for similar revolving funds established by municipalities or intermunicipal agencies;
6. To earn interest on fund accounts; and
7. For the reasonable costs of administering the fund and conducting activities under this title, except that such amounts shall not exceed 4 percent of all grant awards to such fund under this title.

Throughout its history the Washington CWSRF has complied with these restrictions. Throughout this three year period all 86 loans were for projects on the

program's IUP. No loans appear to have been made for projects that would be ineligible under the terms of the Clean Water Act.

### **Intended Use Plan Development [40 C.F.R. 35.3150]**

Each Clean Water State Revolving program is required to prepare a plan identifying the intended uses of the funds in its SRF and describing how those uses support the goals of the SRF. This Intended Use Plan (IUP) must be prepared annually and must be subjected to public review and comment before being adopted as final by the State. If the State is applying for a capitalization grant, it must submit the Final IUP as a part of the grant application.

Over the past few years, Ecology has continued to use an integrated funding cycle for its three major water quality financial assistance programs. Communities and other eligible applicants submit one application to compete for financial assistance from the Clean Water Revolving Fund, the state Centennial Clean Water Fund and nonpoint source grants under §319 of the Clean Water Act. All applications are evaluated against one common set of criteria. Project sponsors have the opportunity to apply for or indicate that they will accept financial assistance from one or all of the three sources. As noted earlier, Washington reserves a total of 20% of the available funds each year for nonpoint source and estuary projects. As a standard part of its process for marketing its water quality financial assistance programs within the state, Ecology holds a series of workshops (one in each of its regional office cities) on the application process during the time period when it is soliciting applications each year. Ecology also posts complete application information on its web page on the Internet. Additionally, starting with the development of the SFY 2002 IUP, Ecology started providing opportunities in each of its regional offices for what could be termed "individualized coaching" for water quality financial assistance applicants.

This has been a remarkably successful approach to the development of the IUP. Ecology routinely receives a wide range of projects and through the end of SFY 2001 has been able to commit 90% of its available funds.<sup>7</sup> Even though the reserves for nonpoint source and estuary projects are often underused, Washington has been one of the more successful states with respect to making loans from its SRF to finance these types of projects.

During SFY 2000, Washington pilot tested a new system for evaluating projects for inclusion in the SFY 2000 IUP. As part of the new system, Ecology created a Water Quality Financial Assistance Advisory Council with broad voting representation to advise it on the administration of the State's water quality financial assistance programs. The Council's membership includes representatives of county governments, city governments, water and sewer districts, Indian tribal governments, irrigation districts, conservation districts, citizens groups and other Federal and state funding agencies. EPA, Region 10 served as an ex-officio member of the Advisory Council in calendar year 1999 and now serves as a full member of the Council. The process for developing the SFY 2000 IUP, as with previous years, included several workshops held around the state

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<sup>7</sup>

This was a slight reduction from the preceding two fiscal years in which it was able to commit 95% of its total available funds (see [Table 6](#)).

to help potential applicants understand how to apply and how their applications would be evaluated. After the process was completed, Ecology surveyed applicants and Ecology staff to assess how well the new process worked and determine which elements of the process should be revised in subsequent years.

Ecology, while consulting with the Advisory Council, revised the new priority system in SFY 2000 for the development of the SFY 2001 IUP. The revised process changed the evaluation criteria slightly, clarified instructions and changed how project sponsors would demonstrate local project priorities. Ecology has continued to refine and improve the priority system each year.

## **Achievement of Goals and Objectives**

### **Long-term Goals**

The State had eight long-term and eight short-term goals identified in the SFY 2001 Final IUP.<sup>8</sup> The SFY 2001 Annual Report articulated Ecology's assessment of the program's progress in terms of those goals at pages 4-12. Our review focused, first, on Ecology's long-term goals for its program:

1. Long-Term Goal – To integrate, to the greatest extent possible the SRF with the Centennial Clean Water Fund (Centennial), and the Federal Clean Water Act Section 319 Nonpoint Source Program (Section 319) to maximize the limited state and Federal grant and loan funds and protect the water quality of the state of Washington. Ecology has use an integrated system for soliciting and awarding water quality financial assistance in the state. This approach to allocating the available funds among competing projects has been implemented in a manner that has tended to maximize the water quality benefits that the State is obtaining from its water quality financial assistance.
2. Long-Term Goal – To provide financial assistance to communities to achieve compliance with state and federal water pollution control requirements, implement nonpoint source pollution control programs and develop and implement estuary conservation and management programs. Over the three year period, Ecology continued to expand its market and increase the proportion of its new loan portfolio devoted to nonpoint source and estuary water quality projects. In each of the years, Ecology was successful in executing most of the loans offered in the Final IUP and "Offer List."
3. Long-Term Goal – To protect public health and water quality and achieve overall improvement and protection of the environment. The fact that Ecology's system for ranking projects is water quality driven has meant that the available funds tend to go to the projects with the most significant water quality benefits. Some evidence of this is found in the increasing percentage of the loan portfolio that is being devoted to nonpoint source

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<sup>8</sup> The Final IUPs for SFY 1999 and SFY 2000 contained goals that were substantively identical to those in the SFY 2001 Final IUP, although some of these goals had slight differences in their wording.

water quality projects. These projects tend to address some of the State's most ignored existing water quality problems and tend to be very effective per dollar "expended."

4. Long Term Goal – To encourage local governments to develop and implement projects which will prevent water quality degradation, including wetland protection projects. The program's priority system has exactly this result. Additionally, Ecology's regular workshops around the state have allowed more potential project sponsors to become familiar with the State's water quality financial assistance programs and the State's water quality objectives. The expanded nonpoint source effort in SFY 1999-2001 has specifically included projects that protected wetlands habitat.
5. Long-Term Goal – To assist communities with financial difficulties in meeting required public health and water quality standards while maintaining the health and perpetuity of the SRF program according to federal law and guidance. Washington has the most comprehensive system for addressing the needs of communities with financial difficulties in the region. Our review indicates that this system is working well to help these communities meet their water quality needs, while preserving the long-term value of the Fund. Washington is the only state in Region 10 that uses explicit financial hardship criteria to determine the magnitude of a community's need for hardship assistance. Additionally, starting with the SFY 2001 IUP, it adopted a policy of using all of its discretionary Centennial grant money (those funds not committed by statute to King County and Spokane) to hardship assistance. It uses similar hardship criteria to determine whether to refinance an applicant's existing debt.
6. Long-Term Goal – To provide the type and amount of financial assistance most advantageous to communities, consistent with the long-term health of the fund. Ecology has a very flexible system for establishing the terms of each loan that it originates and is also able to blend grant and loan funds to make projects affordable for their sponsoring communities.
7. Long-Term Goal – To administer the SRF program so that the financial integrity, viability, and revolving nature are maintained in perpetuity. During this review EPA inspected various financial reports and conducted various analyses to assess the perpetuity of the CWSRF. EPA's review found that Ecology's mix of loans is producing a revenue stream for the Fund that, to date, has allowed the State to maintain the long-term value of the Fund in inflation adjusted terms. Additionally, Ecology's system of making the interest rate a function of the loan's "maturity" gives borrowers a financial incentive to "sign up" for a shorter loan. This has the desirable result of recycling the funds at a higher rate and increases the annual volume of new loans that the program can support. Our analysis of the effects of the current loan interest rates on future sustainable loan volumes suggests that the Department may wish to consider raising interest rates slightly in the next annual Intended Use Plan cycle.

8. Long-Term Goal – To integrate local watershed planning legislation passed during the 1998 legislature in evaluating and prioritizing water quality project proposals. Ecology's priority ranking system has specifically incorporated a "local prioritization process" since the major overhaul that was effective with the development of the SFY 2000 Intended Use Plan. This has provided an explicit mechanism for incorporating this watershed planning. The local prioritization process was refined for the development of the SFY 2001 IUP to make it easier for customers to use.

### **Short-term Goals**

Ecology's short-term goals each year tended to focus on administrative matters and on the number and type of loans that Ecology hoped to execute during the program year. Ecology's assessment of the success of the program with respect to these administrative goals can be found in the Ecology annual reports and does not need to be reiterated, here. In SFY 2000 Ecology also identified some non-administrative short-term goals. Those goals and Ecology's progress towards attaining them are discussed below.

- Work with Ecology's Water Quality Financial Assistance Council to continue the development and implementation of the priority rating system used to evaluate candidates for financial assistance.

The SFY 2000 Final IUP was the first one developed with Ecology's new priority setting system. That new system had been developed by Ecology in consultation with an advisory council (the Financial Assistance Restructuring Committee) in order to make the system that Ecology used to rank projects and offer funding more transparent to the customer. After the development of the SFY 2000 Final IUP, Ecology polled customers and its staff to obtain their views on how well the process worked. During SFY 2000 Ecology worked with the Advisory Council to refine the priority system to address the concerns identified in this feedback including simplifying the part of the process used by applicants to establish local priorities.

- To develop a Final IUP for SFY 2001 that would capture the EPA capitalization grants from both FFY 1999 and FFY 2000. As noted earlier the EPA did not award a capitalization grant for SFY 2000 because we found that Ecology could execute all of the loans contemplated in the SFY 2000 Final IUP with money already in the Fund.

Ecology addressed this need in two ways. First, as noted elsewhere, it marketed the program more aggressively. Second, it conducted financial analyses on its current loan portfolio to determine whether it could safely lower the interest rates the Fund charged on new loans. Based on those analyses, it lowered interest rates considerably. Those lower interest rates attracted applications for over \$228 million in assistance when only \$66.4 million was available. Ecology was therefore able to capture both capitalization grants in SFY 2000. These lower interest rates have continued to attract considerable loan demand.

## **Reporting**

### **Annual Report [40 C.F.R. 35.3135(j) & 35.3165]**

Over these three years Ecology has been improving the timeliness and content of its Annual reports to the EPA. The SFY 1999 Annual Report was delivered in December 1999. The SF 2000 Annual Report was dated February 23, 2001 and arrived at EPA on March 8, 2001. The report was significantly later that year due to an unusually large work load associated with closing out the budget biennium. The SFY 2001 Annual Report was completed on November 14, 2001 and delivered to the EPA on November 19, 2001. The content and information provided continues to be very useful for EPA to understand the activities during the Period and to complete this review. The EPA is continuing to work with Ecology to refine the content of the Annual Report so that it is more focused on the information that EPA needs to support its program oversight. The resulting changes in report content should improve Ecology's ability to deliver the required report on time.

### **Data Management [40 C.F.R. 35.3130(b)]**

Every year Ecology completes and submits an annual "data report" to EPA that is entered into EPA's National Information Management System (NIMS) for the Clean Water Revolving Fund. The state's SFY 2000 data report corrected errors in previous reports and arrived on time. The SFY 2001 report was received on time and required few corrections.

## **Department of Ecology's Comments on the Draft PER**

Comment: Ecology did not report accurate dollar amounts for MBE/WBE and in most cases the reports were late. Ecology must correct this problem.

Response: Ecology will send letters to all SRF loan recipients reminding them that they must report MBE/WBE participation in there project with each loan disbursement request. Financial management staff will insure that the Contractor Participation Report form will be routed to Ecology's Fiscal program so that accurate and timely reporting to EPA will occur.

Comment: Ecology does not complete any credit worthiness evaluation of projects and can't demonstrate that adequate dedicated source of revenue exists to repay the loan. Ecology must do a financial capability assessment on all loans.

Response: Ecology will explore alternatives for reviewing financial capability on projects for the FY05 funding cycle and will report results and recommendation to EPA before the FY 05 funding cycle begins.

Comment: Ecology should consider increasing interest rates for the fiscal year 2004 (FY 04) funding cycle to help insure the funds perpetuity.

Response: Ecology established FY 04 interest rates in December 2002. The FY 04 funding cycle is underway and it is not feasible to increase rates at this time. Ecology will consider increasing interest rates for the FY 05 funding cycle to help insure the SRF funds perpetuity.

Comment: Ecology should consider adding staff to administer the program, i.e. prepare financial capability assessments.

Response: There is currently a hiring freeze at Ecology due to direction from the Governor that all State agencies must reduce their number of full time equivalent employees. Ecology cannot add new staff to the SRF program at this time.

Comment: Ecology should consider charging a loan origination fee prior to the end of the capitalization period.

Response: Ecology clearly understands this issue. We have discussed this issue with staff from the Governor's office. Their response has been that as long as Ecology is receiving administration money from the capitalization grant they will not support a loan origination fee. Ecology will continue to coordinate with the Governor's office to resolve this issue.

## Project Management Reviews Appendix

### North Bend WWTP Improvements, Phase IIA and IIB L0000010/G0000173

Item Description	Where & How Met	Explanation of Requirement (if needed)
Project Name	North Bend Wastewater Treatment Facility Improvements, Phase IIA & IIB	
Project Loan Number	L0000010	
Date of Loan	January 26, 2000	
Project Description	Add UV disinfection system to eliminate need for chlorination, build new headworks, oxidation ditch, odor control work.	
Amount of Loan	\$2,980,362	
Need for Project	Operating under a consent order for severe I & I problems, multiple SSO events, numerous odor complaints, and not meeting the conditions of its NPDES permit for disinfection and chlorine removal before effluent discharge into the Snoqualmie River.	
Loan Terms (rate/amortization period)	20 years at 1.5%	
Repayment Source Evaluation	Loan agreement contains language pledging property tax revenue taxes to repay loan.	
Facility Plan available/Approved	Prepared by Earth Tech in December 1996, approved on 4/24/1997.	
Engineering Report	Prepared by Earth Tech in December 1996	

Item Description	Where & How Met	Explanation of Requirement (if needed)
Plans & Specs Approval	Plans and Specs approved 4/24/997	
Bid Advertisement and Approval	Unknown	
MBE/WBE Compliance	Standard specifications included in the Engineering Report. Loan agreement sets out MBE/WBE goals and the six affirmative steps.	
Initiation of Operations/Performance Certification	Not complete	
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)]	Yes, secondary treatment, will continue to meet NPDES permit effluent limits through the design year (Engineering Report)	
Eligible Categories [§201(g)(1)]	Treatment works upgrade	
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2)	Effluent reuse evaluated in engineering report. Plan to sell biosolids as fertilizer after being composted.	
Infiltration/Inflow §20(g)(3)	I & I studies done in 1974, 1986, and again in December 1996 for the current Facility Plan/Engineering Report. Severe I&I problems due to high GW table, poor materials, lack of side sewer inspections. In recent history three major SSO events (fall of 95, December 1996, and January 1997.)	
Innovative/Alternative Treatment Technology (§201(g)(5))	UV instead of chlorine	
Recreation & Open Space [§201(g)(6)]	N/A	
CSO Funding Limitations	N/A	If they (20%) are exceeded their needs

Item Description	Where & How Met	Explanation of Requirement (if needed)
		to be documentation that the Governor certified it as a priority
Capital Financing Plan	Completed for both phases as part of Comprehensive Sewer Plan.	How did the state assist or encourage the development of a capitol financing plan
Water Quality Management Plans	N/A	Is the project consistent with applicable plans (§208, §303)
User Charge System	Rates to increase from \$28 to \$42 per month	Did the state review the user charge system?
Collection Systems [§211]	Yes, essential.	Replacement/rehabilitation must be essential to system operation
Cost Effectiveness	Evaluated in the Engineering Report, no V/E required	Is the selected alternative cost-effective, was value engineering performed for projects costing more than \$10,000,000
Davis Bacon Act	General coverage in loan agreement & P&S documents.	Were D-B wage rates posted at the site and paid to employees (for projects before 1 October 1994)
Environmental Review	SEPA checklist and Mitigated Determination of Nonsignificance	Was an environmental review completed in accordance with the SERP?
Was the appropriate type of environmental review conducted	Yes	FNSI, categorical exclusion, EIS
If another agency's environmental review was adopted, is the adoption process appropriately documented	N/A	Describe documentation of the adoption
Public Notice	Yes, mentioned in Engineering Reports and in SEPA checklists. Published on 4/24/97.	Was proper public notice given during the environmental review process?
Public Hearing	Yes, but date not recorded by reviewer.	Was a hearing held?
Was an appropriate range of alternatives evaluated	Yes, alternatives for both disinfection and biosolids disposal were evaluated in the Engineering	

Item Description	Where & How Met	Explanation of Requirement (if needed)
Were other environmental review considerations adequately addressed	Report/Facility Plan. Yes, nothing present.	Were population projections and design basis flow estimates reasonable? Was the project evaluated within the context of the broader system so that cumulative effects could be appropriately evaluated? Was the study area large enough to encompass all of the area potentially affected by the project's construction and operation?
Endangered Species Act	N/A (checklist)	How was ESA consultation handled?
National Historic Preservation Act	N/A (checklist)	Is SHPO contact appropriately documented?
Archeological & Historic Preservation Act	N/A (checklist)	
Wild & Scenic Rivers Act	N/A	
Coastal Zone Management Act Compliance	N/A	Consistency certification? State CZM permit?
Coastal Barriers Resource Act	N/A	N/A in Region 10
Farmland Protection Act	N/A	
E.O. 11990 Wetlands Protection	Only impacted if reconstruction of outfall.	Were wetlands appropriately identified and avoided or protected?
E.O. 11888 Floodplain Management Act	Site has been filled to an elevation of 440 feet, above the 100-year flood elevation of 435 estimated by Army Corps of Engineers. Also a 436 foot levy exists next to the Snoqualmie River.	Were floodplain issues evaluated?
Clean Air Act Compliance	Addressed in Engineering Report. Numerous odor complaints made to Puget Sound Air Pollution Control Authority. Phase II of project to address.	Does the project comply with the SIP?

Item Description	Where & How Met	Explanation of Requirement (if needed)
Safe Drinking Water Act	Fixing I&I problem improves quality of GW	Sole Source Aquifer review?
Civil Rights Act	The standard loan agreement incorporates the Civil Rights Act of 1964 by reference.	Pre-award compliance review completed?
E.O. 11246	Included in bid specifications	Contract language re EEO?
MBE/WBE	Loan agreement has percentages and six affirmative steps.	Compliance by borrower/contractor
E.O. 12898 Environmental Justice		Pre-award compliance review completed?
Small Business & Rural Communities Act	Included in sample bid specifications and in loan agreement	
Uniform Relocation Act	N/A	
Debarment & Suspension	The standard loan agreement incorporates the annually issued program guidelines by reference. These guidelines specifically list the Executive Order on debarred and suspended contractors.	

### Bremerton-Kitsap County Health District Local Loan Program

Item Description	Where & How Met	Explanation of Requirement (if needed)
Project Name	Bremerton-Kitsap County Health District Local Loan Program	
Project Loan Number	L0100003	
Date of Loan	August 14, 2000	
Project Description	Create and fund a local loan fund to assist homeowners with the repair of failing septic systems and small farms with the implementation of best management practices. Priority given to protecting drinking water and marine shoreline areas	
Amount of Loan	\$300,000	
Need for Project	Several stream segments in the county are listed under section 303(d) for failing to meet fecal coliform standards due to failing septic systems. This loan would refund an existing local loan fund.	
Loan Terms (rate/amortization period)	Repaid semiannually over five years, 0% interest	
Repayment Source Evaluation	Loan secured by County septic tank tipping fees. Information in file does not contain figures for the revenue stream or any evaluation thereof	
Facility Plan available/Approved	N/A	
Plans & Specs Approval	N/A	
Bid Advertisement and Approval	N/A	
MBE/WBE Compliance	Loan specifically describes MBE/WBE goals and the six affirmative steps and	

Item Description	Where & How Met	Explanation of Requirement (if needed)
	requires the borrower to take those steps. Attachment 6, Page 1	
Initiation of Operations/Performance Certification		
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)]	N/A	
Eligible Categories [§201(g)(1)]	Loan restricts local loans to projects that are eligible	File should include information documenting that all portions of the project are eligible
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2)	N/A	
Infiltration/Inflow §20(g)(3)	N/A	
Innovative/Alternative Treatment Technology (§201(g)(5))	N/A	
Recreation & Open Space [§201(g)(6)]	N/A	
CSO Funding Limitations	N/A	If they (20%) are exceeded their needs to be documentation that the Governor certified it as a priority
Capitol Financing Plan	N/A	How did the state assist or encourage the development of a capitol financing plan
Water Quality Management Plans	Several local watershed plans have been completed. These plans recognize the need to repair failing septic systems.	Is the project consistent with applicable plans (§208, §303)
User Charge System		Did the state review the user charge system?

Item Description	Where & How Met	Explanation of Requirement (if needed)
Collection Systems [§211]	N/A	Replacement/rehabilitation must be essential to system operation
Cost Effectiveness	N/A	Is the selected alternative cost-effective, was value engineering performed for projects costing more than \$10,000,000
Davis Bacon Act	N/A (started after 1 October 1994)	Were D-B wage rates posted at the site and paid to employees (for projects before 1 October 1994)
Environmental Review	Not a Section 212 project, (Not applicable)	Was an environmental review completed in accordance with the SERP?
Was the appropriate type of environmental review conducted	N/A	FNSI, categorical exclusion, EIS
If another agency's environmental review was adopted, is the adoption process appropriately documented	N/A	Describe documentation of the adoption
Public Notice	County advertised the availability of financial assistance. Public Health Department enforcement actions sometimes used to bring "customers" in to fix their failing systems.	Was proper public notice given during the environmental review process?
Public Hearing	N/A	Was a hearing held?
Was an appropriate range of alternatives evaluated	N/A	

Item Description	Where & How Met	Explanation of Requirement (if needed)
Were other environmental review considerations adequately addressed	N/A	Were population projections and design basis flow estimates reasonable? Was the project evaluated within the context of the broader system so that cumulative effects could be appropriately evaluated? Was the study area large enough to encompass all of the area potentially affected by the project's construction and operation?
Endangered Species Act		How was ESA consultation handled?
National Historic Preservation Act		Is SHPO contact appropriately documented?
Archeological & Historic Preservation Act		
Wild & Scenic Rivers Act		
Coastal Zone Management Act Compliance		Consistency certification? State CZM permit?
Coastal Barriers Resource Act		N/A in Region 10
Farmland Protection Act		
E.O. 11990 Wetlands Protection		Were wetlands appropriately identified and avoided or protected?
E.O. 11888 Floodplain Management Act		Were floodplain issues evaluated?
Clean Air Act Compliance	N/A	Does the project comply with the SIP?
Safe Drinking Water Act	N/A	Sole Source Aquifer review?
Civil Rights Act	The standard loan agreement incorporates the Civil Rights Act of 1964 by reference and that would be applicable to the County. Not applicable to individual homeowners who contracted for the actual work	Pre-award compliance review completed?
E.O. 11246		Contract language re EEO?
MBE/WBE	No compliance information from the	Compliance by borrower/contractor

Item Description	Where & How Met	Explanation of Requirement (if needed)
	County. The sample local loan document does not transfer the MBE/WBE responsibility to the individual borrower.	
E.O. 12898 Environmental Justice		
Small Business & Rural Communities Act	Requirements articulated in Loan	Attachment 6, Page 2
Uniform Relocation Act	N/A	
Debarment & Suspension	The standard loan agreement incorporates the annually issued program guidelines by reference. These guidelines specifically list the Executive Order on debarred and suspended contractors. Unlikely to apply to individual homeowners	

**Vashon Sewer District Beulah Park/Cove Hazard Area Wastewater Facilities Construction Project**

Item Description	Where & How Met	Explanation of Requirement (if needed)
Project Name	Vashon Sewer District Beulah Park/Cove Hazard Area Wastewater Facilities Construction Project	
Project Loan Number	L9800021	
Date of Loan	December 23, 1997	
Project Description	Vacuum sewage collection system, sewage pumping station, force main, recirculating gravel sewage treatment plant, disinfection and pumping to a subsurface drip irrigation system for final effluent disposal Resolves a King County declared severe public health hazard due to failing on-site sewage systems	
Amount of Loan	\$343,750 Also received \$1,010,000 state grant. The loan financed administration of the construction project, which was financed with the grant. Two other related projects for the Sewer District were also financed.	
Need for Project	Severe public health hazard	
Loan Terms (rate/amortization period)	20 years, 0% interest	
Repayment Source Evaluation	Net revenues of the Utility and ULID Assessments. No evaluation of adequacy of revenue stream.	
Facility Plan available/Approved	Developed with public participation	

Item Description	Where & How Met	Explanation of Requirement (if needed)
	and King County support. Approved by Ecology	
Plans & Specs Approval	Approved by Ecology in letter dated April 21, 1999	
Bid Advertisement and Approval MBE/WBE Compliance	MBE/WBE requirements are specified in the loan	
Initiation of Operations/Performance Certification	Certification required in Loan agreement. Project under construction	
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)]	Better than secondary, by definition that's BPWTT	
Eligible Categories [§201(g)(1)]	Section 212 project	File should include information documenting that all portions of the project are eligible
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2)	Facilities plan considered good range of alternatives. Reuse and reclamation were not practical for such a small system. As part of the project development and approval process discharge was changed from marine outfall to drip irrigation/land disposal.	
Infiltration/Inflow §201(g)(3)	New sewers	
Innovative/Alternative Treatment Technology (§201(g)(5))	Vacuum collection system is considered innovative. Drip irrigation disposal is also considered innovative technology.	
Recreation & Open Space [§201(g)(6)]		
CSO Funding Limitations	N/A	If they (20%) are exceeded their needs to be documentation that the Governor certified it as a priority
Capitol Financing Plan [§201(o)]	No data	How did the state assist or encourage

Item Description	Where & How Met	Explanation of Requirement (if needed)
		the development of a capitol financing plan
Water Quality Management Plans	No applicable plans. Project resolves a public health hazard	Is the project consistent with applicable plans (§208, §303)
User Charge System	Required by the loan agreement	Did the state review the user charge system?
Collection Systems [§211]	N/A	Replacement/rehabilitation must be essential to system operation
Cost Effectiveness	N/A	Is the selected alternative cost-effective, was value engineering performed for projects costing more than \$10,000,000
Davis Bacon Act	Applied and then converted to state prevailing wage law requirements. Contract bid specifications include language requiring compliance with Davis Bacon Act	Were D-B wage rates posted at the site and paid to employees (for projects before 1 October 1994)
Environmental Review	Yes, SEPA checklist completed.	Was an environmental review completed in accordance with the SERP?
Was the appropriate type of environmental review conducted	FNSI appropriately issued.	FNSI, categorical exclusion, EIS
If another agency's environmental review was adopted, is the adoption process appropriately documented	N/A	Describe documentation of the adoption
Public Notice	Yes	Was proper public notice given during the environmental review process?
Public Hearing	Yes-October 29, 1992 on draft facilities plan.	Was a hearing held?
Was an appropriate range of alternatives evaluated	Yes, several were considered	

Item Description	Where & How Met	Explanation of Requirement (if needed)
Were other environmental review considerations adequately addressed	Design flows were based on the limited capacity of the water supply system serving the community. Population size is limited by the small size of the service area and the topography.	Were population projections and design basis flow estimates reasonable? Was the project evaluated within the context of the broader system so that cumulative effects could be appropriately evaluated? Was the study area large enough to encompass all of the area potentially affected by the project's construction and operation?
Endangered Species Act	After contract award, some species of salmon were designated under ESA. At pre-construction conference District was informed of the need for a biological assessment. It was ultimately completed and accepted by NMFS.	How was ESA consultation handled?
National Historic Preservation Act	Addressed in SEPA checklist	Is SHPO contact appropriately documented?
Archeological & Historic Preservation Act	Addressed in SEPA checklist	
Wild & Scenic Rivers Act	No wild and scenic rivers	
Coastal Zone Management Act Compliance	In state's coastal zone. Project would require substantial development permit from local government.	Consistency certification? State CZM permit?
Coastal Barriers Resource Act		N/A in Region 10
Farmland Protection Act	No prime or unique farmlands affected	
E.O. 11990 Wetlands Protection	The shoreline is a Class I wetland(tidal) under King County's sensitive areas ordinance.	Were wetlands appropriately identified and avoided or protected?
E.O. 11888 Floodplain Management	All structures above 100 year	Were floodplain issues evaluated?

Item Description	Where & How Met	Explanation of Requirement (if needed)
Act	wave level, project is within the 100 year floodplain.	
Clean Air Act Compliance	Certified in SEPA checklist	Does the project comply with the SIP?
Safe Drinking Water Act	N/A	Sole Source Aquifer review?
Civil Rights Act	The standard loan agreement incorporates the Civil Rights Act of 1964 by reference	Pre-award compliance review completed?
E.O. 11246	See MBE/WBE, below	Contract language re EEO?
MBE/WBE	Contract specifications include the six affirmative steps	Compliance by borrower/contractor
E.O. 12898 Environmental Justice	N/A	
Small Business & Rural Communities Act	Applied in terms of the loan	
Uniform Relocation Act	N/A	
Debarment & Suspension	The standard loan agreement incorporates the annually issued program guidelines by reference. These guidelines specifically list the Executive Order on debarred and suspended contractors.	

### Olympus Terrace Sewer District Open Channel UV Disinfection System

Item Description	Where & How Met	Explanation of Requirement (if needed)
Project Name	Olympus Terrace Sewer District Open Channel UV Disinfection System	
Project Loan Number	L0000009	
Date of Loan	January 20, 2000	
Project Description	Add UV disinfection to an existing wastewater system	
Amount of Loan	\$500,000	
Need for Project	Olympus Terrace wants to uprate the capacity of the Treatment Plant so that it will be adequate to service the design year (2012) flows.	
Loan Terms (rate/amortization period)	15 years at 1.5%	
Repayment Source Evaluation	Not in file	
Facility Plan available/Approved	Not in file	
Engineering Report	Approved April 1, 1999	
Plans & Specs Approval	Plans and Specs approved August 21, 2000	
Bid Advertisement and Approval		
MBE/WBE Compliance	Standard specifications included in the Engineering Report. Loan agreement sets out MBE/WBE goals and the six affirmative steps.	
Initiation of Operations/Performance Certification		
BPWTT [Best Practical Wastewater Treatment Technology; §201(b)]	Yes, secondary treatment, will continue to meet NPDES permit effluent limits through the design year	
Eligible Categories [§201(g)(1)]	Treatment works upgrade	File should include information

Item Description	Where & How Met	Explanation of Requirement (if needed)
		documenting that all portions of the project are eligible
Reclaim, Reuse [Alternative management techniques; e.g., land treatment, small systems, reclamation and reuse of water must be considered] §201(g)(2)	Effluent reuse evaluated in engineering report. Biosolids are land disposed on agricultural lands.	
Infiltration/Inflow §20(g)(3)	Evaluated in Engineering report	
Innovative/Alternative Treatment Technology (§201(g)(5))	N/A	
Recreation & Open Space [§201(g)(6)]	N/A	
CSO Funding Limitations	N/A	If they (20%) are exceeded their needs to be documentation that the Governor certified it as a priority
Capital Financing Plan	Engineering report used by Owner to update its capital facilities plan	How did the state assist or encourage the development of a capitol financing plan
Water Quality Management Plans	N/A	Is the project consistent with applicable plans (§208, §303)
User Charge System		Did the state review the user charge system?
Collection Systems [§211]	N/A	Replacement/rehabilitation must be essential to system operation
Cost Effectiveness	Evaluated in the Engineering Report, no V/E required	Is the selected alternative cost-effective, was value engineering performed for projects costing more than \$10,000,000
Davis Bacon Act	N/A	Were D-B wage rates posted at the site and paid to employees (for projects before 1 October 1994)
Environmental Review	SEPA checklist and Declaration of Nonsignificance completed January 19, 1999. Washington	Was an environmental review completed in accordance with the SERP?

Item Description	Where & How Met	Explanation of Requirement (if needed)
	SRF Checklist completed February 18, 1999	
Was the appropriate type of environmental review conducted	Yes	FNSI, categorical exclusion, EIS
If another agency's environmental review was adopted, is the adoption process appropriately documented	N/A	Describe documentation of the adoption
Public Notice	Yes, mentioned in Engineering Reports and in SEPA checklists	Was proper public notice given during the environmental review process?
Public Hearing	Public meeting on December 9, 1998	Was a hearing held?
Was an appropriate range of alternatives evaluated	Yes, alternatives for both disinfection and biosolids disposal were evaluated in the Engineering Report	
Were other environmental review considerations adequately addressed	N/A	Were population projections and design basis flow estimates reasonable? Was the project evaluated within the context of the broader system so that cumulative effects could be appropriately evaluated? Was the study area large enough to encompass all of the area potentially affected by the project's construction and operation?
Endangered Species Act	N/A (checklist)	How was ESA consultation handled?
National Historic Preservation Act	N/A (checklist)	Is SHPO contact appropriately documented?
Archeological & Historic Preservation Act	N/A (checklist)	
Wild & Scenic Rivers Act	N/A	
Coastal Zone Management Act Compliance	Addressed in Engineering Report	Consistency certification? State CZM permit?
Coastal Barriers Resource Act	N/A	N/A in Region 10

Item Description	Where & How Met	Explanation of Requirement (if needed)
Farmland Protection Act	N/A	
E.O. 11990 Wetlands Protection	Checklist indicates no wetlands present	Were wetlands appropriately identified and avoided or protected?
E.O. 11888 Floodplain Management Act	Not in floodplain	Were floodplain issues evaluated?
Clean Air Act Compliance	Addressed in Engineering Report	Does the project comply with the SIP?
Safe Drinking Water Act	N/A	Sole Source Aquifer review?
Civil Rights Act	The standard loan agreement incorporates the Civil Rights Act of 1964 by reference	Pre-award compliance review completed?
E.O. 11246	Included in bid specifications	Contract language re EEO?
MBE/WBE	Prime contractor is MBE	Compliance by borrower/contractor
E.O. 12898 Environmental Justice		
Small Business & Rural Communities Act	Included in bid specifications and in loan agreement	
Uniform Relocation Act	N/A	
Debarment & Suspension	The standard loan agreement incorporates the annually issued program guidelines by reference. These guidelines specifically list the Executive Order on debarred and suspended contractors.	