



# Drinking Water System Rehabilitation and Consolidation Guidelines

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We are offering grant funding through the Drinking Water State Revolving Fund (DWSRF) Program for Drinking Water System Rehabilitation and Consolidation (DWSRC) projects (formerly known as Water System Acquisition and Rehabilitation Program or WSARP). Funding may be used for consolidation, restructuring, or receivership of a failing system or the rehabilitation of a struggling system. These guidelines define the review process and selection criteria for the program funding.

## Program Description and Goals

During the Washington State 2023 Legislative Session, the legislature appropriated \$5 million for our DWSRF program to spend on consolidating, restructuring, and rehabilitating struggling and/or failing Public Water Systems (PWS). Over \$2 million of the appropriated funds were targeted for specific projects and the remainder of the funds were directed to projects supporting struggling and failing systems and communities.

The program's goal is to improve the delivery of safe and reliable drinking water to communities served by struggling or failing PWS impacted by environmental, technical, financial, or managerial challenges. Funding can be used for planning, document preparation, feasibility studies, and infrastructure projects resulting in the rehabilitation or consolidation of the struggling or failing PWS. Consolidation, restructuring, and receivership projects are eligible for DWSRC funding if the water system being consolidated, restructured, or received under court order is a community Group A system serving fewer than 10,000 people, a Group B system serving residences, or several properties served by private wells. In addition, the consolidated, restructured, or received system must become a community Group A system at the end of the project.

## Community/Project Selection and Grant Information

- ◆ Our staff will identify communities and associated construction projects based on compliance and outreach activities and identified metrics for struggling and failing systems. Generally, struggling and failing PWS are defined as being impacted by undesirable or unintended events, occurrences, or situations involving the existing water infrastructure. This includes the discontinuation or significant disruption of water services, or financial and administrative governance breakdowns that may or are seriously compromising public health and safety. Failing systems are or are likely to enter the receivership process or fall within the definition of RCW 90.03.580.
- ◆ PWS eligible for rehabilitation or being restructured/consolidated must have been issued a health-based violation by the state, have an outstanding significant deficiency, or is missing at least one of the following:

- **Technical Capacity**—a water system without a certified operator or has had a vacancy at a water treatment plant for more than six months.
- **Managerial Capacity**—a water system without a functional governing body or has management unwilling to comply with safe drinking water regulations.
- **Financial Capacity**—water rates sufficient to cover the required infrastructure would exceed 2 percent of the median household income or the water system serves a disadvantaged community.
- ◆ Maximum grant funding amount is no more than 25 percent of the funds appropriated to our DWSRF program in a given fiscal year (July 1 to June 30).
- ◆ The funded project must result in the consolidation, restructuring, or rehabilitation of a struggling or failing water system or establish structures for the receivership of failing systems.
- ◆ A water system already consolidated or restructured must have been transferred within the last three years.
- ◆ Communities and water systems awarded funding must complete the scope of work activities **within the four-year (48 months)** contract execution.
- ◆ Preconstruction costs (such as permitting, design, or legal costs) incurred prior to contract execution are eligible for reimbursement if occurred within 12 months of contract execution. Construction costs incurred prior to contract execution are not eligible for reimbursement.
- ◆ All projects must be procured in accordance with state procurement law and associated regulations.
- ◆ Projects may use a combination of DWSRC and DWSRF funding.

## Eligibility Requirements

### Eligible Entities for Rehabilitation

- ◆ Group A water system serving less than 10,000 people under a state DOH compliance order.

### Eligible Entities for Consolidation, Restructuring, or Receivership

To be eligible, you must meet all of the following criteria.

- ◆ The receiving water system for the consolidation or receivership must be a Group A publicly owned (town, city, county, public utility district, or water district) water system, an approved Satellite Management Agency (SMA), or an approved receiver. A receiver is a water system or SMA approved by us to acquire failing water systems through a court order.
- ◆ The water system(s) being consolidated, restructured, or received under court order must be a community Group A system serving fewer than 10,000 people, a Group B system serving residences, or several properties served by private wells. In addition, the consolidated, restructured, or received system must become part of a new or existing community Group A system by the end of the project.

- ◆ A receivership project must satisfy the terms of the court order (the receiver must submit the court order).

## Ineligible for Rehabilitation or as a Receiver

- ◆ Noncommunity public water systems owned by a for-profit organization.
- ◆ State or federally owned water systems.

## Special Eligibility Requirements for Consolidation, Restructuring, or Receivership Projects

- ◆ Only Group A community water systems are eligible to apply for DWSRC funding for restructuring projects that involve a change of ownership.
- ◆ Restructuring and consolidation projects are those that will acquire other Group A or Group B public water systems that may have water quality problems, deteriorated infrastructure, or capacity issues or communities that do not have a centralized PWS.
- ◆ State or federally owned water systems can be part of a consolidation project as the system to be consolidated.
- ◆ Additionally, established candidates for a restructuring or consolidation project must demonstrate a record of sound drinking water utility management. They must:
  - Own at least one Group A public water system.
  - Have at least five years of experience as a Group A water system.
  - Have an approved water system plan for the receiver's system or be an approved SMA, unless you are a municipality approved to develop a water program.
  - Have no state or federal civil penalties in the past five years.
  - Have received no unilateral enforcement orders from the Environmental Protection Agency (EPA) or DOH in the past five years.
  - Have not had a system's operator license suspended or revoked in the past five years.
  - Have no outstanding DOH invoices.
- ◆ Other eligibility criteria may be considered on a case-by-case basis including operating permit history, prior contract performance, and history of audit findings.
- ◆ For receivership projects, the proposed project must satisfy the terms of the court order and the grant recipient must submit a copy of the court order.
- ◆ Counties or other potential receivers of last resort acceptable to us seeking to act as a voluntary candidate for consolidation may be eligible for costs associated with the establishment of the governance and structural foundations required to take on struggling and failing systems. Our staff will work with potential receivers to develop plans and administrative implementation schedules as part of project development.

## Eligible Activities

The following activities are eligible for reimbursement if they relate directly to an eligible DWSRC project.

- ◆ Preconstruction activities (engineering, asset management, design, legal, financial, environmental and cultural reviews, permitting, and surveying) directly related to an eligible capital construction project.

- ◆ Purchase costs for a publicly owned water system to acquire or restructure water systems. An asset management program is required to justify the cost for the transfer of assets.
- ◆ Restructuring, consolidation, and receivership projects to take over noncompliant, failing, or struggling water systems, including the establishment of a water program for a receiving county, city, or town that had not previously developed a program.

## Prioritization Factors

We will evaluate the following risk factors and technical, management, and fiscal aspects for projects considered for funding.

### Risk Categories

- ◆ **Risk Category 1:** The proposed project eliminates documented microbial contamination.
- ◆ **Risk Category 2:** The proposed project eliminates primary inorganic chemical contamination.
- ◆ **Risk Category 3:** The proposed project eliminates other primary chemical risk, addresses a sanitary survey significant deficiency, disinfection installation, lead component removal or replacement, receiverships, or EPA chemical Health Advisory (HA) risk.
- ◆ **Risk Category 4:** The proposed project addresses a secondary Maximum Contaminant Level (MCL), resiliency, climate change, seawater intrusion risk, sanitary survey significant finding, 80 percent of nitrate or arsenic MCL, or a restructuring or consolidation project.
- ◆ **Risk Category 5:** All other projects not addressed in the other four risk categories.

### Other Prioritization Factors

- ◆ Compliance. The project meets all milestones and returns to compliance with all issued enforcement orders.
- ◆ The project addresses water quality violations.
- ◆ The project addresses a system with fewer than 100 connections or had three or more violations over the past five years.
- ◆ Restructuring or consolidation benefit. The project restructures (eliminates) one or more Group A or B system(s).
- ◆ Regional benefit. The project benefits more than one Group A water system.
- ◆ Asset management. The system has attended asset management training, has an asset inventory, or has assigned criticality to assets and developed a viable asset management program.
- ◆ Governance. The system has an established and viable system operator, up to date and approved planning documents (Water System Plan or Small Water System Management Program), and stable/functioning governing body and financial management system in place.

## Included Eligible Costs

The following activities are eligible for reimbursement if they relate directly to an eligible funded project.

- ◆ Costs associated with the training and onboarding of certified operators.
- ◆ Preconstruction activities (engineering, asset management, design, legal, financial, environmental and cultural reviews, permitting, and surveying) directly related to an eligible infrastructure construction project.
- ◆ Value planning to evaluate alternative analysis with cost comparison over life of loan.
- ◆ Purchase costs for a publicly owned water system to acquire or restructure water systems. An asset management program is required to justify the cost for the transfer of assets.
- ◆ Construction of infrastructure:
  - New source development.
  - Source reconstruction or upgrades.
  - New or improved disinfection treatment.
  - Treatment plants.
  - New finished reservoir or reservoir improvements.
  - Rehabilitation of finished water reservoir tank interior.
  - Clearwells.
  - Treatment plant discharge improvements.
  - Water main or distribution improvements, such as water main replacement or booster pump stations.
  - Replacing aging infrastructure or making distribution improvements to maintain compliance or further protect public health. Such projects may include pressure reduction devices, backflow prevention assemblies, security measures, telemetry, and additional source for emergencies or additional capacity.
- ◆ Restructuring, consolidation, and receivership projects to take over noncompliant, failing, or struggling water systems.
  - Feasibility studies, including rate analysis.
  - Construction of infrastructure.
  - Receivers to develop a water management program to take on water systems.
- ◆ Security measures such as lighting, cameras, and fences, as a stand-alone project or as part of a larger project.
- ◆ Resiliency projects such as seismic upgrades, improvements to surface water intakes for drought or flood conditions, deepening a ground water well due to a declining aquifer, interties, or generators for main water supply.
- ◆ Backflow prevention assembly as a stand-alone project. The backflow device must be on property the applicant owns. In addition, the applicant must own and operate the assembly.
- ◆ Purchase and installation of source meters as part of an eligible project.
- ◆ Purchase and installation of service meters as part of an eligible project.
- ◆ Complete removal and replacement of lead service lines (public and privately owned portions) or service lines made of galvanized iron or galvanized steel (that are currently or previously were downstream of lead components), goosenecks, pigtails, and connectors; planning and design.

- Including temporary access and construction easements are required to allow the cultural review, environmental review, and construction activities to occur for replacement of lead service lines on private property. Permanent easements are not required for the new service lines. However, if the water system requires a permanent easement for the project, the costs associated with establishing the permanent easement are eligible for reimbursement.
- Reasonable costs associated with returning private property to previous condition once service line replacement occurs (repair fences, replant shrubs, reseed grass, etc.).
- ◆ Purchase of real property from a willing seller if it is an integral part of a capital construction project. If funds are used to purchase real property, and any portion of that property is sold or rented, we will deduct resulting profits from the reimbursement. Reimbursements include:
  - Purchase of land and easements.
  - Purchase of roads, buildings, fences, or other structures.
  - Salaries, expenses, or fees for appraisers, negotiators, or attorneys.
  - Removal or demolition of roads, buildings, fences, or other structures.
  - Other direct costs associated with real property acquisition.

## Ineligible Activities

- ◆ Ongoing and regular operations and maintenance costs for the water system.
- ◆ In-house engineering, construction management, and administrative activities exceeding three percent of project cost.
- ◆ Refinancing of debt or other funding agreements. These activities may be eligible under a DWSRF Construction Loan.
- ◆ Future population growth and water system expansion as the primary goal.
- ◆ Fire protection as the primary goal.
- ◆ Activities on dams or raw water reservoirs.
- ◆ Water rights, except if the water rights are owned by a public water system that is being purchased through consolidation.
- ◆ Laboratory fees for ongoing monitoring.
- ◆ Indirect salaries, wages, and benefits for water system employees whose work falls outside of the scope of preconstruction activities.
- ◆ Purchase of materials.

## Process for Project Consideration

DWSRF Staff work with regional offices to identify potential projects and communities. Staff asks selected communities and entities to apply for funding through the Washington Loan Tracking (WALT) system, the DWSRF online application system.

All entities (rehabilitation or receiver of restructuring/consolidation/receivership) must provide the following information to be considered for funding.

- ◆ Each person needing access to the application must have a separate Secure Access Washington (SAW) account to access WALT.

- ◆ Each person needing access to WALT must pre-register with Sara J. Herrera. Please contact her at 360-236-3089 or by e-mail at [DWSRF@doh.wa.gov](mailto:DWSRF@doh.wa.gov).
- ◆ Lead entities must be registered with [SAM.gov](http://SAM.gov) prior to signing a grant agreement. Renew the applicant's SAM.gov registration annually and provide the expiration date along with the applicant's universal business identifier (UBI) and federal tax identification.
- ◆ Lead entities must provide their statewide vendor number (SWV).
- ◆ Technical, managerial, and financial information.
  - For receivers:
  - A current and approved planning document that identifies the receiving entity is willing to consolidate water systems in general, or specifically. Please submit the approval letter and the page stating the entity is open to consolidation or restructuring.
  - Letters of commitments from all water systems or property owners on private wells to cooperate in consolidation, restructuring, or receivership.
  - Water rights documentation (permit, certificate, or approved change) for source, consolidation, and receivership projects.
  - Construction site control through ownership, easement, or lease documentation.
  - Name and certification number of all certified water operators employed or contracted by the receiver.
  - All board or council positions should be filled. There should be no vacancies for more than six months.
- ◆ Project site location information includes site address(es) including zip code, longitude and latitude, county, Legislative District, and Congressional District.

## Financial Review

- ◆ We will conduct a financial viability review for each eligible entity based on the financial information requested from the PWS. Please provide complete financial information as requested.
- ◆ When additional financial information is requested, a response is required within two weeks. Otherwise, the application may be withdrawn from funding consideration.
- ◆ Lead entity may not have outstanding audit findings pertaining to financial or managerial capacity. Contact [Michael.Copeland@doh.wa.gov](mailto:Michael.Copeland@doh.wa.gov) or at 360-236-3083 with questions about how any audit findings may impact the application.
- ◆ **Non-municipal** entities are required to provide:
  - Copies of the entity's tax returns for the past three years.
  - Balance sheet statement for the past three years.
  - Three professional or business references.
  - Completed financial capacity worksheets.

We will deem as ineligible for funding any incomplete financial information.

## Next Steps if a Project is Funded

- ◆ Applicant receives notification if the project is awarded funding.
- ◆ We work with the applicant to negotiate the contract scope of work.
- ◆ We execute contracts following the final scope of work negotiation.
- ◆ Applicants have 60 days to sign the contract, or we will withdraw the project funding offer.

- ◆ After the contract is signed, we may reimburse eligible preconstruction costs. Preconstruction activities completed prior to signing a contract are undertaken at the water system's risk.
- ◆ Refer to the [DWSRF Customer Loan Handbook 331-586 \(PDF\)](#).
- ◆ We withhold 10 percent of the contract amount until all project activities officially close out.

## Contact Information

### Drinking Water State Revolving Fund Loan Program

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If You Have Questions About	Contact	Phone	Email
Program manager	Chris Pettit	564-233-1408	<a href="mailto:Chris.pettit@doh.wa.gov">Chris.pettit@doh.wa.gov</a>
Eligibility & general questions	Jocelyne Gray	564-669-4893	<a href="mailto:Jocelyne.gray@doh.wa.gov">Jocelyne.gray@doh.wa.gov</a>
Technical assistance & criteria for disadvantaged communities	Chelsea Cannard	564-233-1799	<a href="mailto:Chelsea.cannard@doh.wa.gov">Chelsea.cannard@doh.wa.gov</a>
Application & general questions	Sara J. Herrera	360-236-3089	<a href="mailto:Sara.herrera@doh.wa.gov">Sara.herrera@doh.wa.gov</a>
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