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## Fact Sheet

# Transitioning the Financial Management of the Drinking Water State Revolving Fund

The Drinking Water State Revolving Fund (DWSRF) is a federal loan program that provides low-interest loans to eligible public water systems to address public health compliance issues. Congress created the program in 1996 when it reauthorized the federal Safe Drinking Water Act. In Washington State, the Department of Health (Health), Department of Commerce (Commerce), and the Public Works Board currently administer the program jointly. This multi-agency structure presents several administrative challenges, inefficiencies, and compliance concerns. The coordination required to administer the program jointly has been challenging since its inception, and recent changes to federal requirements have made administering the program more complex.

In addition to the challenges described above, Health has a formal agreement with the federal government called “primacy” that makes us responsible for implementing the Safe Drinking Water Act in Washington State. Health is also responsible for the administration and operation of the DWSRF as one of several tools to help water systems maintain compliance with the Act. These responsibilities, coupled with the challenges of a multi-agency management structure, required Health to evaluate the effectiveness of the DWSRF.

### Efficiencies gained

In light of these facts, Health began to look at ways to make the DWSRF more efficient. After discussions with the Department of Commerce and other stakeholders, we determined that consolidating DWSRF program responsibility and oversight under the single “primacy” agency was the correct path forward. This approach produces several specific efficiencies necessary to meet current challenges and our responsibilities as a primacy agency. These efficiencies include:

- Oversight and control over the entire life cycle of the project. This would improve the state’s ability to be responsive to consumers and improve the usability, efficiency, and effectiveness of DWSRF funding, benefiting our customers and Washington citizens overall.
- Creation of a “one stop shop” for customer access to managerial, engineering, and technical expertise. From a consumer perspective, a single point of contact will reduce confusion and delays and enables the state to offer a higher level of technical, engineering, managerial and administrative support to DWSRF loan recipients.
- Increased flexibility to provide incentives for efficient and effective use of loan funds.

This proposed solution enhances our ability to award funds quickly so water systems can start and complete infrastructure projects within the federally-required two-year window. Most states use this one-agency model and effectively focus staff and financial resources to meet program and agency goals, while maintaining the agility to meet stakeholder needs, maximizing the benefits of the program.



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## Timing and expected changes

This change would happen during the 2015-17 biennium, and allow us time to build the management structure needed for a successful transition. This will require existing federal and dedicated fund appropriations be redirected from Commerce to Health. An estimated 4.8 FTEs and associated funding budgeted for Commerce DWSRF activities would be reduced (or redirected) to other activities during the transition. We would request an estimated 4.5 additional FTEs for DWSRF project management and oversight. Initial estimates show an ongoing cost savings equivalent to \$862,000 per biennium once the program has been fully transitioned to Health. The transition will phase in over three years to mitigate transition risk, and these savings would move into infrastructure loans to water systems.

While this change will result in cost savings used for capital projects, the realignment of resources will ultimately result in more effective service delivery to DWSRF loan recipients, increased programmatic flexibility, and increased flow of funding from the federal level to the local level. These improvements will enhance the state's ability to operate the DWSRF in perpetuity, securing the DWSRF as a tool to address the most serious public health risks and ensure safe and reliable drinking water for many years to come.

## Why transition the program now?

Timing is important in this transition. The federal administering agency, EPA, has communicated the need for increased program efficiency and effectiveness. While DWSRF awards are entirely obligated, there are significant issues with water systems spending their awarded amount too slowly (or not at all). EPA now requires all federal DWSRF funding be expended within two years of award (the previous requirement was five years). The state DWSRF program will need to become more nimble to comply with these new terms. We are also entering the 19th year of a 20-year program. While EPA may push out this sunset date, we need to streamline our state operations so the program can operate in perpetuity without ongoing federal funding (i.e. using only state funds, including loan repayment revenue).

## Stakeholder Involvement

Our stakeholders have indicated conceptual support for housing the entire program at the department. In addition, utility associations and drinking water advisory groups that previously voiced concerns about the current arrangement, indicated strong support for the improvements we will be able to achieve with the added control and flexibility inherent in managing all aspects of the DWSRF. We plan to provide more stakeholder involvement as we move forward with this proposal.

## Who will be impacted?

- Water systems
- Environmental Protection Agency
- Municipalities
- Public Works Board
- Utility associations and drinking water advisory groups
- Offices of Financial Management & State Treasurer
- Drinking water infrastructure project consultants
- Department of Commerce

## For more information:

Call Gary Myers, [gary.myers@doh.wa.gov](mailto:gary.myers@doh.wa.gov), 360-236-3153.

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