



Department of Health  
2023-25 Regular Budget Session  
Policy Level - EE - DWSRF Set Asides Allotment Increase

### Agency Recommendation Summary

The Department of Health requests funds for the Drinking Water Assistance Account to spend the operating portion of the Environmental Protection Agency (EPA) Drinking Water State Revolving Fund (DWSRF) grant: to address fund expenses related administration and technical assistance, state program management, small system technical assistance, local assistance and other state programs. DOH requests additional spending authority to spend Bipartisan Infrastructure Law (BIL) appropriations, available set-asides in awards for FY24 – FY28. Without spending authority for additional set asides ODW’s capacity to provide increased technical assistance to small water systems to fully utilize the funding available from BIL will be limited.

### Fiscal Summary

Fiscal Summary <i>Dollars in Thousands</i>	Fiscal Years		Biennial	Fiscal Years		Biennial
	2024	2025	2023-25	2026	2027	2025-27
<b>Staffing</b>						
FTEs	9.8	11.1	10.45	5.9	5.9	5.9
<b>Operating Expenditures</b>						
Fund 04R - 2	\$3,493	\$3,653	\$7,146	\$3,115	\$3,115	\$6,230
Total Expenditures	\$3,493	\$3,653	\$7,146	\$3,115	\$3,115	\$6,230
<b>Revenue</b>						
04R - 0366	\$3,493	\$3,653	\$7,146	\$3,115	\$3,115	\$6,230
Total Revenue	\$3,493	\$3,653	\$7,146	\$3,115	\$3,115	\$6,230

### Decision Package Description

**Problem:**

The Office of Drinking Water (ODW) uses the O4R-2 Drinking Water Assistance Account to spend the operating portion of the EPA DWSRF grant. This federal appropriation is needed to fund expenses related administration and technical assistance, state program management, small system technical assistance, local assistance and other state programs.

Each year, ODW receives approximately \$7.6M in DWSRF grant operating funds (set-asides) through the DWSRF capitalization grant. In addition to the capitalization grant ODW expects to receive Bipartisan Infrastructure Law (BIL) funding to add to the DWSRF program. ODW can receive set-asides of 31% on all portions of the BIL appropriation, however ODW has elected to request only 26% set-asides from the DWSRF stimulus funding. ODW lacks the spending authority to spend BIL appropriations set-asides in the awards for FY24 – FY28.

The technical assistance provided using these funds will include technical, managerial, and financial capacity building for small water systems to ensure they are eligible for the construction loans. Additionally, these funds will be used to provide direct engineering support and construction management to small, underserved community water systems.

ODW expects the following amounts over the next 5 year (in millions of \$).

DWSRF Set Asides Summary by Fiscal Year (in millions)					
	SFY24	SFY25	SFY25	SFY26	SFY27
Current appropriation	\$8.8	\$8.2	\$8.8	\$8.2	\$8.8
Base DWSRF Grant 31% set asides	\$4.9	\$4.9	\$4.9	\$4.9	\$4.9
Stimulus DWSRF Grant (with 26% set-asides)	\$10.5	\$12.2	\$13.3	\$14.4	\$14.4
Prior biennium DWSRF unspent set asides	\$0.7	\$0.7	0	0	0
<b>Increase appropriation requested</b>	<b>\$3.7</b>	<b>\$3.8</b>	<b>\$3.1</b>	<b>\$3.1</b>	<b>\$3.1</b>
<b>Appropriation not requested at this time</b>	<b>\$3.6</b>	<b>\$5.8</b>	<b>\$6.6</b>	<b>\$8.0</b>	<b>\$7.4</b>

ODW requests an additional federal allocation from this account to spend these additional funds, including the FY23 funds not previously allotted.

Set-aside funds from DWSRF capitalization grants complement ODW's ability to provide financial assistance for capital improvement projects. States may use set-aside funds to:

- (1) administer the DWSRF,
- (2) support Public Water System Supervision program management,
- (3) support capacity development, operator certification and wellhead protection programs and
- (4) finance local source water protection and provide water systems with technical assistance and financial assistance related to a ODW's capacity development strategy.

**Proposal:**

The set-aside funds are a powerful tool unique to the DWSRF program, which give ODW the flexibility through a wide range of activities to help public water systems address compliance challenges that do not require capital investment. ODW can tailor and balance the use of the grant funds for capital investment and other activities funded with set-asides that support the reliable delivery of safe drinking water to protect public health. Systems that receive assistance from the state must be public water systems, unless the result of the assistance will be a new public water system.

The set asides are paramount in ensuring water systems are eligible for DWSRF low interest loans and loan forgiveness. Water system infrastructure around the state will be upgraded or constructed to improve public health by ensuring safe and reliable drinking water throughout the State. Drinking water infrastructure eligible projects include:

- Installation of treatment to address both acute and chronic chemical contamination.
- Installation of treatment to address microbial risk.
- Projects that increase system resiliency to climate change, natural disasters, and cybersecurity threats.
- Projects that replace failing and aging infrastructure.
- Projects that consolidate two or more water systems.
- Projects that create a new public water system to address contamination of individual wells or develop new regional water systems.
- Lead service line inventories and replacements.
- Projects that address contamination from unregulated contaminants.

ODW is still developing workplans for EPA approval but will utilize these funds to implement the expanded loan program, increase staffing to provide technical assistance to support water systems in being eligible to apply for DWSRF loans, increase staff to administer the program, expand existing operator and certification training and support, expand existing third party technical assistance contracts, support new contracts with engineering firms and other technical experts to support disadvantaged and overburden communities be eligible for these loans (including principal forgiveness loans), new contracts to assist disadvantaged and overburden communities, manage both the loans and construction projects and other activities that improve systems capacity that are identified in the work plans and ODW's Capacity Strategic Plan.

With this increase in funding, ODW will be able to increase the technical, managerial, and financial capacity of water systems to ensure safe and reliable tap water is delivered to customers taps now and for generations to come.

This proposal may increase the contract amount for the Department of Commerce's Small Communities Initiative (SCI) program. The SCI Program provides technical assistance to small, rural communities required to meet the same public health and environmental mandates as larger cities, but often lacking the administrative, technical, or financial capacity to do so effectively. The program:

- Works with small, rural cities, unincorporated communities, utility districts and water associations referred by the departments of Health and Ecology.
- Provides technical advice and facilitation services to local elected officials and staff to develop infrastructure projects, make strategic investments, identify, and access appropriate fund sources.

Additional contract will be executed with engineering and consulting firms to:

- To assist water utilities with the development of water systems plans, to meet DWSRF construction loan requirements.
- Provide engineering design for small projects in disadvantaged communities.
- Provide DWSRF application assistance.
- Provide DWSRF construction loan management and project oversight.
- Provide assistance to conduct lead service line inventories for small, disadvantaged communities.
- Provide legal services to improve management structure and develop equitable rates to support disadvantaged communities.

Support pilot testing of treatment systems to ensure the technology meets both treatment goals and operational needs.

**Alternative:**

One option was to not apply for additional set-asides. However, these additional set asides will help support the expanding program and allow ODW to give more direct technical assistance to small water systems. Many small and disadvantaged systems struggle to meet the state and federally mandated DWSRF construction loan eligibility criteria. Water systems must have managerial, technical, and financial capacity to be eligible for DWSRF loans. In Washington, we present that a water system meets these federal requirements by requiring an approved water system planning document. Many small water systems struggle to procure engineering services and do not have the in-house capacity to manage all the construction loan project and meet all federal crosscutters. Without these additional set asides, ODW does not believe enough water systems will be eligible or interested in the increase infrastructure funds and may not be able to use its BIL federal allocation. Thus, reducing the chance that these unprecedented funds can be used to support the underserved, disadvantage communities that need it most.

Another option is to apply for additional set-asides funds available through the BIL funding. ODW can take up to 31% of the entire BIL funding for set asides, totaling 37.3M available in set aside funding in FY24. ODW did not feel it could spend that much money on third-party contracts at this time and elected to keep any additional set aside in the capital budget for infrastructure projects.

## Assumptions and Calculations

### Expansion, Reduction, Elimination or Alteration of a current program or service:

The increase in DWSRF construction loans and engineering and service contracts will increase workload and required additional support positions. We currently have one HSC3 to support ODW’s contacts, we project an additional HSC3 will be needed to support the increase contract work in FY25 – FY27.

The current DWSRF program, has one Environmental Engineer 3 to support the 10 to 15 construction loans each year. This position reviews engineering projects, develops scopes of work, and performs construction inspections. With the increase in federal funding, we expect this work to increase and the need for additional engineering and program support for the next 5 years. The program also expects to need an additional environmental planner to support water system plan review overflow from our regional offices and manage the technical engineering and consulting contracts.

The Environmental Engineer 2, Public Health Advisor 2, and the Forms and Records Analysis 2 are positions funded by previous set aside that are not carried forward into the FY23-25 and FY25-27. budgets.

### Detailed Assumptions and Calculations:

Discrete expenditures include expanding SCI contract, engineering and consulting service contracts that equal approximately \$2,400,000.

To support the increase administration of the DWSRF program we are requesting the following project positions:

Position	Project Duration (years)	Range	Salary	Benefits
Health Service Consultant 3	4	56	\$75,000	\$30,000
Environmental Planner 3	5	59	\$81,000	\$32,000
Environmental Engineer 3	5	67	\$99,000	\$36,000
Environmental Planner 4 (SCI Commerce))	5	63	\$89,000	\$34,000
Forms & Records Analyst 2	2	42	\$53,000	\$26,000
Public Health Advisor 2	2	53	\$70,000	\$30,000
Environmental Engineer 2	2	61	\$85,000	\$33,000

### Workforce Assumptions:

Workforce Assumptions FY24 Projections Only					
FTE	Job Classification	Salary	Benefits	Startup Costs	FTE Related Costs
1.0	ENVIRONMENTAL PLANNER 3	\$81,000.00	\$32,000.00	\$5,000.00	\$8,000.00
1.0	ENVIRONMENTAL ENGINEER 3	\$99,000.00	\$36,000.00	\$5,000.00	\$8,000.00
1.0	ENVIRONMENTAL PLANNER 4	\$89,000.00	\$33,000.00	\$5,000.00	\$8,000.00
2.0	FORMS & RECORDS ANALYST 2	\$106,000.00	\$51,000.00	\$10,000.00	\$15,000.00
1.0	PUBLIC HEALTH ADVISOR 2	\$70,000.00	\$29,000.00	\$5,000.00	\$8,000.00
1.0	ENVIRONMENTAL ENGINEER 2	\$85,000.00	\$33,000.00	\$5,000.00	\$8,000.00
1.7	FISCAL ANALYST 2	\$92,000.00	\$45,000.00	\$0.00	\$0.00
1.0	HEALTH SERVICES CONSULTANT 1	\$54,000.00	\$26,000.00	\$0.00	\$0.00
<b>9.8</b>		<b>\$676,000.00</b>	<b>\$285,000.00</b>	<b>\$35,000.00</b>	<b>\$55,000.00</b>

Estimated expenditures include salary, benefit, and related costs to assist with administrative workload activities. These activities include policy and legislative relations; information technology; budget and accounting services; human resources; contracts; procurement; risk management, and facilities management.

## Strategic and Performance Outcomes

### **Strategic Framework:**

The proposal contributes to the Governor's Results Washington goal of Healthy and Safe Communities by funding infrastructure pre-design, pre-construction and construction activities to ensure safe and reliable drinking water to communities throughout the state. A portion of this funds can be used to conduct lead service line inventories and lead service line replacements in support of Governor's Directive 16-06. This directive has a goal of removing all lead service lines and lead components in Group A Public Water drinking systems by 2031.

The DWSRF construction loan program supports the goal of a prosperous economy by providing funding for large and small infrastructure construction projects throughout the state. In addition to supporting economy through a construction project, ensuring safe and reliable drinking water is vital to local economy.

The proposal supports the Dept. of Health's **Transformational Plan Priority I. Health and Wellness**, in that all Washingtonians have the opportunity to attain their full potential of physical, mental, and social health and well-being. This proposal achieves this priority by helping meet our agency needs by ensure safe and reliable drinking water and our partners utilities to construct necessary infrastructure to ensure they are providing safe and reliable drinking water to all people of Washington through the DWSRF Loan program. The DWSRF loan program helps systems upgrade critical infrastructure with low interesting loans and loan forgiveness to small, disadvantaged community water system. These systems may not be able to access funding without this loan program.

The DWSRF program is critical in assuring water systems can maintain compliance with both federal and state drinking water regulations. The agency goal is to reduce the number of Washington's population being served water by a water system in violation with a federal drinking water regulation. Currently 6 percent of Washingtonian's served by public water systems, are served water that is in violation with the Safe Drinking Water Act (SDWA).

### **Performance Outcomes:**

Supports public water systems in maintaining safe and reliable drinking water, by improving infrastructure, removing lead service lines, and funding treatment technologies for federally unregulated contaminants such PFAS.

Increase the number of construction loans provided each year.

Remove all lead service lines and lead connectors in public water systems by 2031.

Reduce the number of water system in violation of SDWA.

Supports disadvantaged and overburdened small communities by providing principal loan forgiveness.

Provide 49% of DSWRF stimulus funding and lead service line removal funding as principal loan forgiveness for disadvantage communities.

Helps to establish more climate resilient water systems.

## Equity Impacts

### **Community outreach and engagement:**

Staff and partners work together to understand the needs and assess challenges using community engagement and interactive partnerships to provide technical service and guidance to best use this funding.

### **Disproportional Impact Considerations:**

DWSRF is one of the pilot programs implementing Justice40 Initiative. Justice40 was established in President Biden's executive order 14008 and is a whole-of-government effort to ensure that Federal agencies work with states and local communities to make good on President Biden's promise to deliver as a goal at least 40 percent of the overall benefits from Federal investments in climate and clean energy to disadvantaged communities. Set asides are included in this requirement. ODW plans to use a large portion of this funding to contract for engineering services and other technical experts to support small and disadvantaged communities. These experts will help these communities complete water system planning, engineering studies and design, loan applications, and managing construction projects.

### **Target Populations or Communities:**

DWSRF makes funds available to Group A drinking water systems (municipal owners and operated systems) to pay for infrastructure improvements equitably, making current innovative technology available to all water systems through principal forgiveness loans. The program provides low-interest construction loans to publicly- (municipal) and privately-owned drinking water systems.

**Other Collateral Connections**

**Puget Sound Recovery:**

NA

**State Workforce Impacts:**

NA

**Intergovernmental:**

Set-aside funding will target supporting struggling water systems to ensure delivery of safe and reliable drinking water. All Group A public and privately owned water systems are eligible for assistance, including tribal, city, county, and quasi-government owned water systems. Water systems are in support of this program.

This proposal includes increasing the interagency agreement with Department of Commerce Small Communities Initiatives (SCI) to fund additional staff and work. The SCI Program provides technical assistance to small, rural communities required to meet the same public health and environmental mandates as larger cities, but often lacking the administrative, technical or financial capacity to do so effectively. The program:

- Works with small, rural cities, unincorporated communities, utility districts and water associations referred by the departments of Health and Ecology.
- Provides technical advice and facilitation services to local elected officials and staff to develop infrastructure projects, make strategic investments, identify and access appropriate fund sources.

**Stakeholder Response:**

Set-aside funding will target supporting struggling water systems to ensure delivery of safe and reliable drinking water. All Group A public and privately owned water systems are eligible for assistance. Water systems are in support of this program.

**State Facilities Impacts:**

NA

**Changes from Current Law:**

NA

**Legal or Administrative Mandates:**

NA

**Reference Documents**

- [Backup - ODW - DWSRF Set Asides 04R-1 - Decision Package.docx](#)
- [FINAL - ODW - DWSRF Set Asides Allotment Request DP 2023\\_submitted to CBO \(1\) \(1\).xlsm](#)

**IT Addendum**

**Does this Decision Package include funding for any IT-related costs, including hardware, software, (including cloud-based services), contracts or IT staff?**

No

**Objects of Expenditure**

Objects of Expenditure <i>Dollars in Thousands</i>	Fiscal Years		Biennial	Fiscal Years		Biennial
	2024	2025	2023-25	2026	2027	2025-27
Obj. A	\$676	\$789	\$1,465	\$454	\$454	\$908
Obj. B	\$284	\$328	\$612	\$181	\$181	\$362
Obj. C	\$2,400	\$2,400	\$4,800	\$2,400	\$2,400	\$4,800
Obj. E	\$43	\$56	\$99	\$34	\$34	\$68
Obj. G	\$4	\$20	\$24	\$16	\$16	\$32
Obj. J	\$33	\$0	\$33	\$0	\$0	\$0
Obj. T	\$53	\$60	\$113	\$30	\$30	\$60

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