Report to the Legislature

Water System Acquisition and Rehabilitation Program

Fulfilling Requirements from 2008 Session
Substitute Senate Bill 6340

January 2009

DOH 331-419

Washington State Department of Health
Division of Environmental Health
Office of Drinking Water

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Contents

Contents - continued

Executive Summary

Small water systems in Washington often face technical, managerial, and financial challenges. These challenges can lead to poor water quality, water system unreliability, and failing water system infrastructure which pose significant public health risks to customers.

The Washington State Legislature created the Water System Acquisition and Rehabilitation Program (WSARP) in 2003. The program provides cost-share grants to well-managed, publicly owned water utilities to assist with the costs of acquiring troubled water systems and permanently fixing the problems.

Water utilities that acquire troubled water systems typically must update the water system's infrastructure, and sometimes must obtain a new water supply source. These utilities spend a large amount of their own funds to improve the troubled water system. The availability of WSARP funds provides incentive to take on challenging situations and ultimately ensures better public health protection.

Since 2003 WSARP has funded 29 projects at a cost of $9.75 million. These projects provided safe and reliable drinking water to more than 5,400 households by alleviating water quality problems that threatened public health. The projects resolved contaminated water, water shortages, and failing infrastructure problems. Public utilities used 95 percent of state grant funds to rehabilitate the acquired water systems. The utilities used the remaining five percent of funding to reimburse the owners for the value of the water system.

Recognizing the importance of this program, the 2008 Legislature passed Substitute Senate Bill 6340 (SSB 6340), establishing WSARP as an ongoing program. The law directed the Department of Health to study and provide recommendations that will strengthen the program and increase the financial assistance provided.

The department convened a Water System Acquisition and Rehabilitation Program Workgroup with participants from the Public Works Board, Utilities and Transportation Commission, and Washington Public Utility Districts Association. The workgroup met seven times over the summer of 2008 to discuss the existing program structure including eligibility issues, successes to date, and recommendations for potential changes and funding options.

In addition to this report, the 2008 Legislature, under Section 2009 of the Enrolled Substitute House Bill 2765 Capital Budget Bill, directed the department to "…*complete a statewide review of small public drinking water systems (less than 1,000 connections) that have, or may in the future, require significant state resources to resolve urgent threats to public health and safety*."

That report will include policy and program recommendations to improve long-term viability of small water systems. The department submitted a progress report to the Legislature on December 1, 2008 (Department of Health Publication No. 331-417).

The Water System Acquisition and Rehabilitation Program Workgroup contacted water systems about their projected needs for WSARP funds in the future. Based on the data compiled, the workgroup estimates that the total potential program funding needed at this time is at least $21.9 million.

Recommendations

- **Funding level:** provide $12 million biennially for projects and $150,000 biennially for program administration.
- **Permanent funding sources:** use any combination of a sales tax on bottled water; the public utility tax; a trust account, insurance fund, or bond; diversion of funds from retail sales and use-taxes on water distribution facilities; general obligation bonds; or an existing account.
- **Short-term funding:** use the State Building Construction Account provide funding for the 2009-2011 biennium, as in previous years.
- **Funding and application cycles:** have an annual application and funding period, and potentially consider changing the program guidelines to an open application cycle.
- **Form of funding assistance:** continue to offer grants only.
- **Eligibility of Group B water systems:** expand eligibility to Group B water systems in certain cases, after the department develops criteria.
- **Service meters:** require service meters for all projects.
- **Experience in owning and operating a Group A water system:** expand eligibility to utilities with relevant utility management and ownership experience.
- **Costs for rehabilitation-only projects:** expand eligibility to rehabilitation projects if the acquisition occurred within five years of the application submittal.
- **Consideration of a water system's ability to meet financial need:** continue the current approach to assessing affordability.
- **Consideration of other benefits:** continue with the current prioritization process based on public health criteria only; do not consider economic benefits.
- **Water systems serving few residential customers:** use current prioritization of water systems serving few residential customers.
- **Increase the current grant amount cap to $13,000 per connection.**

Introduction

The 2008 Washington State Legislature passed Substitute Senate Bill 6340, establishing the Water System Acquisition and Rehabilitation Program (WSARP) as an on-going program jointly administered by the Department of Health (department), the Public Works Board, and the Department of Community, Trade, and Economic Development. The bill also directed the department, in consultation with the Public Works Board, to study and provide recommendations on strengthening the program and increase the amount of financial assistance provided.

The department formed a WSARP Workgroup in June 2008 that included staff from the Public Works Board, Washington Public Utility Districts Association, and the Washington Utilities and Transportation Commission. The Workgroup met semi-monthly through August 2008 to assess WSARP project funding needs and develop this report that:

- Identifies state policies and objectives for water system management, operation, and regulation;
- Reviews WSARP projects initiated and completed to date;
- Summarizes other funding assistance for water system acquisition and rehabilitation; and
- Discusses funding levels, funding sources, eligibility, and prioritization.

Washington's Policies and Objectives for Water Systems

Regulatory structure

The law (RCW 70.119A.020) defines a public water system as, "Any system, excluding a system serving only one single-family residence and a system with four or fewer connections all of which serve residences on the same farm, providing water for human consumption through pipes or other constructed conveyance."

The state Board of Health adopted rules for two different regulatory frameworks for water systems—Group A (chapter 246-290 WAC) and Group B (chapter 246-291 WAC) water systems. The department implements these rules.

Group A water systems are subject to the federal Safe Drinking Water Act. The department is responsible for oversight of these requirements under an agreement with the U.S. Environmental Protection Agency (EPA). The state Board of Health's rule for Group A water systems must be at least as stringent as EPA's rules.

Chapter 246-290 WAC defines Group A water systems as:

- Having 15 or more connections, or
- Serving more than 25 people per day for 180 days per year, or
- Serving more than 1,000 people for more than two consecutive days in a year.

Group A water system requirements include:

- Comprehensive water quality monitoring;
- Water system planning;
- Operation and management by a certified operator;
- Annual operating permit; and
- Reporting to consumers.

Federal regulations do not apply to Group B water systems. The department regulates Group B water systems under chapter 246-291 WAC. The rule, adopted by the state Board of Health, defines Group B water systems as:

- Having between two and 14 connections, and
- Serving less than 25 people per day for 60 days per year, or
- Serving any number of people for less than 60 days per year.

The department oversees Group B water systems in partnership with some local health jurisdictions under a "Joint Plan of Responsibility" that defines the roles of each agency. Each local health jurisdictions that does have a program tailors the agreement to meet their particular needs.

Group B water systems operate under a limited set of rules compared to Group A water systems. Group B water systems must conduct limited water quality monitoring. Unlike Group A water systems, Group B water systems are not required to have certified operators, and are not subject annual operating permit or consumer reporting requirements.

Where people get their water in Washington

More than 75 percent of households in Washington get their water from 223 large Group A water systems that have 1,000 or more customers (see Figures 1 and 2). In contrast, almost 4,000 small Group A water systems, which provide water to less than 1,000 customers, serve eight percent of the population. Roughly 13,000 Group B water systems provide water service to two percent of Washington's households.

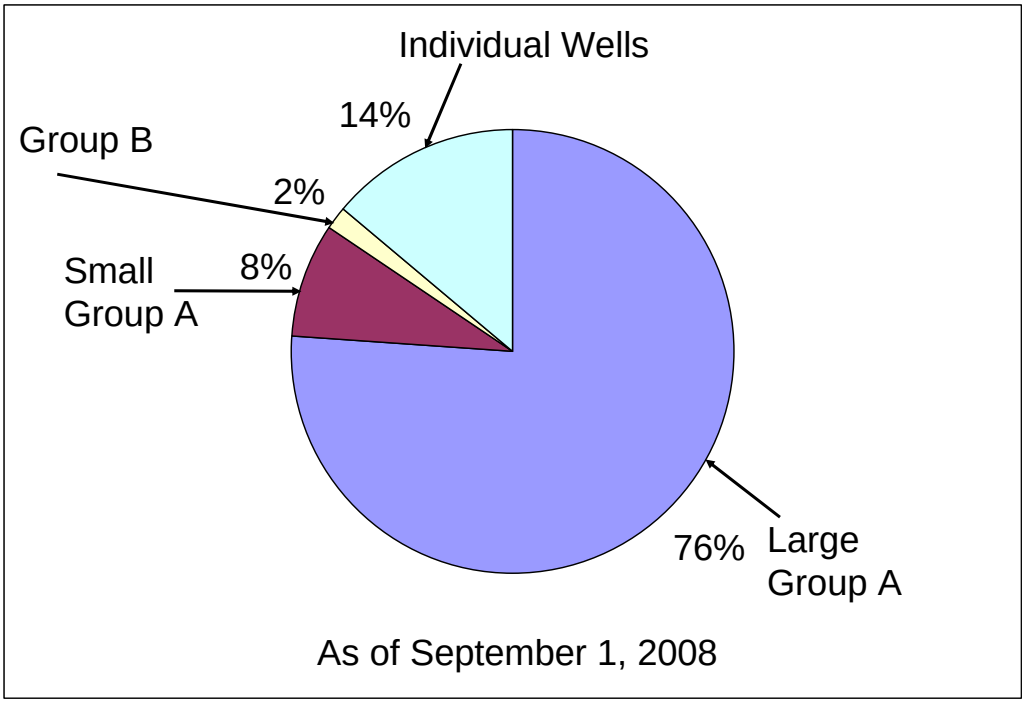

Figure 1. Population served by water systems, separated by water system classification

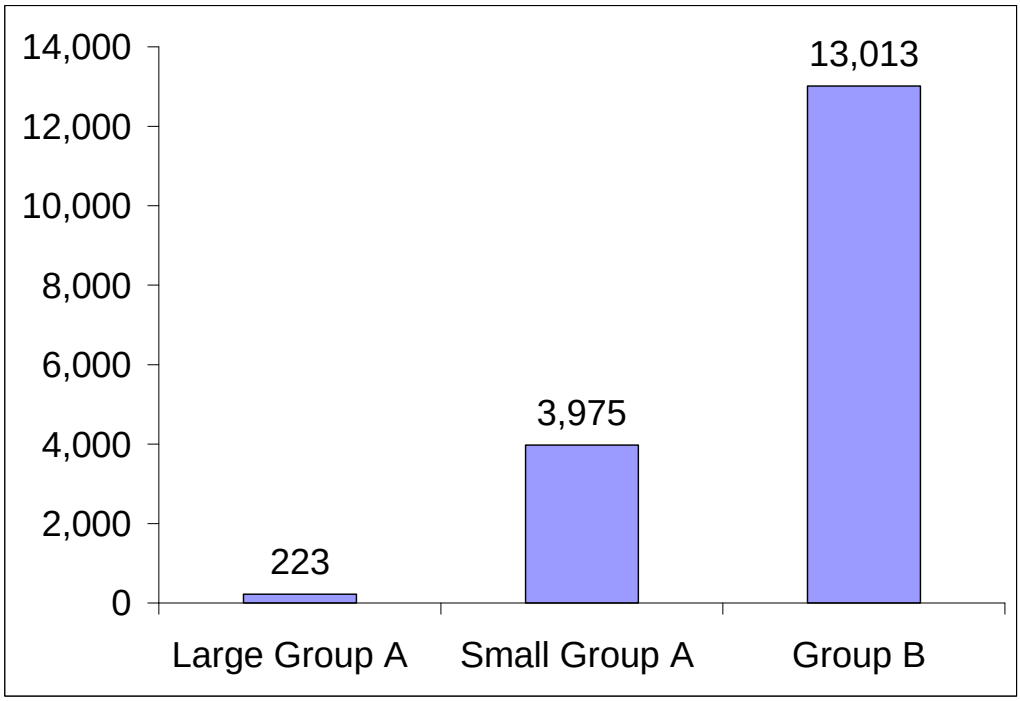

Figure 2. Number of water systems, separated by type (as of September 1, 2008)

Small water systems challenges

Small water systems often face technical, managerial, and financial challenges.

Technical issues challenge water systems because of complex water system operational needs and regulations. The rule requires Group A water systems to have a certified operator responsible for the day-to-day water system operations. Even with the certification requirements, many small water systems struggle to keep up with the technical challenges they face.

Managerial issues confront small water systems because many small water systems have elected boards or commissions who often focus on keeping water rates low. Other small water systems are managed by private individuals or corporations. Often developers create new systems as a part of a development proposal or desire to start a business.

Financial issues consistently stress small water systems. Small water systems' limited customer base generates less revenue to support operational and infrastructure needs than larger water systems. Furthermore, boards of directors often set rates that may not support long-term viability of the water system. For example, in 2006 the Association of Washington Cities found that public utilities surveyed[1] charged an average rate of $24 per month for a basic level of water service. This rate is only about one-third of the state's median affordable[2] rate of $70.

Group A water systems that have less than 1,000 connections account for more than 95 percent[3] of the major compliance problems tracked by the department. The department does not monitor Group B water system compliance, due to lack of resources.

Preventing the proliferation of small water systems

About one new small water system is created each day. More than 150 new Group A and 1,200 new Group B water systems were created between January 2004 and June 2008.

In the Water Resources Act of 1971, the legislature established a set of fundamental principles for water utilization and management. RCW 90.54.020(8) states, *"Development of water supply systems, whether publicly or privately owned, which provide water to the public generally in regional areas within the state shall be encouraged. Development of water supply systems for multiple domestic use which will not serve the public generally shall be discouraged where water supplies are available from water systems serving the public."*

[1] Data from the Association of Washington Cities Tax and User Fee Survey (2006), a voluntary survey conducted every two years that collects local tax rate and fee data from Washington's cities and towns. For more information, visit the association's Web site at: http://www.awcnet.org

[2] The department defines "affordable" as less than or equal to 1.5 percent of the median household income in the water system service area.

[3] Defined by having a red operating permit in the department's database as of September 1, 2008.

The legislature enacted the Public Water System Coordination Act, chapter 70.116 RCW, in part to reduce the number of new water systems. The Water System Coordination Act limits the number of new water systems created in counties with Coordinated Water System Plans. Currently, only 14 counties plan under the Water System Coordination Act.

To implement the legislature's policy direction, the state Board of Health has adopted several administrative rules that also attempt to prevent the proliferation of small water systems or improve management of water systems:

Chapter 246-290 WAC, Group A Public Water Systems: Any new Group A water system must be owned or operated by an approved satellite management agency, if one is available. In addition, the department can require water systems not meeting financial viability or operating requirements to transfer ownership to an approved satellite management agency.

Chapter 246-291 WAC, Group B Public Water Systems: Any new Group B water system must be owned or operated by an approved satellite management agency, if one is available.

Chapter 246-293 WAC, Water System Coordination Act: New water systems cannot be created unless existing water systems adjacent to the proposed new water system do not want to extend service to the proposed new connections.

Chapter 246-295 WAC, Satellite System Management Agencies: The department approves and regulates satellite management agencies. Satellite management agencies own and operate water systems. Each water system owned by an approved satellite management agency means that there would be one less new water system owner.

The department implements a number of programs, including the Drinking Water State Revolving Fund and Water System Acquisition and Rehabilitation Program, which provide funding assistance to reduce the number of troubled water systems. In addition, the following programs provide tools to reduce the number of troubled water systems:

Regionalization and consolidation: The department provides feasibility funding to municipal water systems to investigate consolidating existing small water systems that face technical, managerial, or financial troubles.

Capacity development: The department's Capacity Development Strategy ensures that new water systems have the technical, managerial, and financial capacity for success before the department approves the new water system. Another element to the Capacity Development Strategy ensures that existing water systems maintain technical, managerial, and financial capacity over time.

History of the Water System Acquisition and Rehabilitation Program

In 2003 Gov. Gary Locke requested that the 2003 Legislature establish the Water System Acquisition and Rehabilitation Program (WSARP). The legislature designed the program "*to provide assistance to counties, cities, and special purpose districts to identify, acquire, and rehabilitate public water systems that have water quality problems or have been allowed to deteriorate to a point where public health is an issue*" (Substitute Senate Bill 5401, Section 130, 2003). The Department of Health and the Public Works Board jointly administer the program.

Need

Washington's roughly 17,000 small water systems experience problems at a higher rate than larger water systems. Many small water systems struggle to meet minimum state and federal requirements for providing safe and reliable drinking water for a variety of reasons. The Water System Acquisition and Rehabilitation Program project activities typically include:

- Repair or replacement of existing infrastructure, such as distribution piping, storage, backflow devices, or service meters;
- Construction of new water mains and connections to the acquiring system;
- Installation of treatment, disinfection, or filtration; or,
- Development of new source or source rehabilitation.

Acquisition and subsequent management by a well-managed neighboring water system can be the most cost-effective method to address water system problems, but often the neighboring water system cannot bear the entire cost of acquiring and rehabilitating the troubled water systems. **The program provides the resources needed to help fix troubled water systems, eliminate unsafe drinking water, and reduce public health risks.**

The Water System Acquisition and Rehabilitation Program provides assistance in the form of cost-share grants to publicly owned water utilities to acquire and rehabilitate troubled water systems. Utilities often receive WSARP funding as part of a larger funding package that may also include other grants and loans from the Drinking Water State Revolving Fund, the Public Works Trust Fund, or others.

Troubled water systems often serve lower-income communities that cannot afford the rate increases it would take to repay loans to upgrade their system. **WSARP provides a financial boost to help communities obtain safe, reliable, and affordable drinking water and helps utilities leverage local funds.**

Achievements

Water System Acquisition and Rehabilitation Program (WSARP) provided cost-share grants to 29 acquisition and rehabilitation projects between 2003 and 2007, which fixed problems for unsafe water sources, contamination, and inadequate infrastructure (see Table 1). Because of these projects, public utilities now deliver safe and reliable drinking water to more than 5,400 households.

Table 1. Drinking Water Concerns Addressed Through Water System Acquisition Rehabilitation Program Funds, 2003 – 2007

Risk Category	Number of Projects[4]
Source contamination	
Microbial Risk	19
Primary Inorganic Chemical Risk (arsenic, beryllium, cadmium, copper, lead, nitrate)	8
Other Primary Chemical Risk (organic chemicals)	1
Secondary Chemical Risk / Sea Water Intrusion (iron, manganese, chloride)	5
Water Quantity	7
Infrastructure	12

WSARP has committed a total of $9.75 million in cost-share grants to assist with these acquisition and rehabilitation projects. Table 2 summarizes all 29 projects funded to date.

Rehabilitation costs are the vast majority of the overall project costs. Of the 29 projects that have received program funds to date, the total project costs (including costs not covered by WSARP) averaged $828,050 (ranging from $36,138 to $3,295,000). In all but five cases, acquisition costs represented five percent or less of total WSARP funding provided. In about half of those projects (14 out of 29), the acquisitions occurred at no cost.

Appendix A has more details on funded and unfunded projects.

[4] Some projects have multiple benefits, therefore these numbers do not sum to 29, the total number of WSARP projects funded to date.

Table 2. Summary of WSARP funded projects, 2003-2007

Applicant	Water system	Water supply issue addressed	Total grant	Rehab. costs ($)	Acquis. costs ($)
2003 Funded Projects					
Cedar River Water & Sewer District	Dorre Donn	C (mic)	984,223	984,223	0
Silverdale Water District	Olympic View Road	C (mic)	624,725	624,725	0
Chehalis, City of	Newaukum Village	C (mic), WQ	469,773	469,773	0
Whatcom PUD	Cherry Point	C (mic), I	375,826	375,826	0
Jefferson PUD	Quilcene	C (mic, I	338,562	337,062	1500
Stevens PUD	Chattaroy Springs West	C (mic), WQ	220,300	216,550	3,750
Olympia, City of	Woodland Park	C (mic), I	203,625	199,500	4,125
Pasadena Park Irrigation District	Orchard Prairie School District	C (N)	203,423	199,673	3,750
Mason PUD	Canal Beach & Glen Ayr	C (mic), I	169,750	164,250	5,500
Skagit PUD /Judy Res	Marblemount LUD #28	C (mic), I	142,712	142,712	0
Skagit PUD /Judy Res	Skagit View Village	C (Cu), I	122,009	112,771	9,238
Mason PUD	Arcadia Estates	C (mic), I	101,000	101,000	0
Stevens PUD	Dolomite	C (mic)	64,520	64,520	0
Juniper Beach Water District	Second Chance Thrift Shop	C (As)	19,194	19,194	0
2005 Funded Projects					
Chelan PUD	Monitor area	C (N), WQ	500,000	498,225	1,775
Snohomish PUD	Kayak Estates	C (mic, Mn), WQ	500,000	358,750	141,250
Whitworth Water District	North Glen	C (organic chemicals)	446,897	446,897	0
Kitsap PUD	Frog Pond	C (mic), WQ	372,000	222,000	150,000
Lake Whatcom Water & Sewer District	Lake Whatcom Res. Center	C (Fe, Mn)	186,887	186,887	0
2007 Funded Projects					
Republic, City of	Pine Grove	C (Fe, Mn), I	1,000,000	1,000,000	0
Enumclaw, City of	Y Bar S	C (Cu, Pb)	687,291	607,291	80,000
Malaga Water District	Stemilt Irrigation District	C (mic)	530,000	524,000	6,000
Stevens PUD - Spokane Lake Park	Spokane Lake Park	C (mic), I	449,500	444,500	5,000
Skagit PUD /Judy Res	Samish River Park	C (mic), I	362,388	362,388	0
Jefferson PUD /Quimper	Olympic Mobile Village	C (mic, Fe, Mn), I	296,519	281,519	15,000
Kitsap PUD	Sunrise Beach	C (mic, Cd, Fe, Mn, SW)	150,210	150,210	0
Stevens PUD	Chattaroy Springs North	C (As, Be), WQ	119,050	102,050	17,000
Pacific PUD	Wilson Point	C (mic), I	106,000	106,000	0
Stevens PUD	Riverside	C (risk cat 2), WQ	49,042	0	49,042

C = contamination

Risk Category 1: Mic = microbial
Risk Category 2: As = arsenic, Be = beryllium, Cd = cadmium, Cu = copper, N = nitrate, Pb = lead
Risk Category 3: Organics = Organic chemicals
Risk Category 4: Fe = iron, Mn = manganese, SW = sea water intrusion

I = infrastructure
WQ = water quantity

Funding Levels

To recommend appropriate funding levels for the Water System Acquisition and Rehabilitation Program (WSARP), the workgroup reviewed the history of program appropriations, contacted water systems to assess current need, and estimated administrative costs.

The Water System Acquisition and Rehabilitation Program Workgroup reviewed direct legislative appropriations to WSARP and special appropriations for specific WSARP-type projects not related to the program. The workgroup included these special appropriations in their review because the projects represent part of the overall need for water system acquisition and rehabilitation.

The workgroup also contacted other department personnel and existing water systems to estimate the current need for acquisition and rehabilitation projects. The compiled data likely underestimates the current need because of the limited response the workgroup received, and the high rate of inflation associated with construction projects at this time.

To ensure adequate resources to carry out the program, the workgroup also quantified administrative costs absorbed to date by the department, Public Works Board, and the Department of Community, Trade, and Economic Development.

Appropriation History

The 2003 Legislature appropriated $4 million to establish the program, funding 14 projects. In 2005 a $2 million appropriation funded five projects. In 2007 funding increased to $3.75 million, which funded 10 projects.

In addition to direct WSARP appropriations, the legislature made some special appropriations for specific water system acquisition and rehabilitation. During the 2007-2009 biennium, the legislature passed special appropriations of about $3.54 million. Combining direct and special appropriations, the total biennial appropriation for water system acquisition and rehabilitation in Washington ranged from about $2 million to $6.2 million (see Table 3).

Table 3. Water System Acquisition and Rehabilitation Program Appropriation History

	WSARP Appropriation	Special Appropriations	Total Appropriated	Number of Projects
2007-2009 biennium	$3,750,000[5]	$2,421,000[6]	**$6,171,000**	12
2005-2007 biennium	$2,000,000		**$2,000,000**	5
2003-2005 biennium	$4,000,000		**$4,000,000**	14

Assessment of Funding Needs

Similar to the Drinking Water State Revolving Fund the need for funding exceeds the amount appropriated. For example, 24 eligible projects did not receive funding during the first three grant cycles (see Appendix A).

The Washington Public Utility Districts Association informally surveyed a broad range of municipal agencies between 2006 and 2007 to determine the need for Water System Acquisition and Rehabilitation Program (WSARP) funding. In total they identified nearly $18 million of potential program grant needs to match the more than $20 million of local and other funds to put toward WSARP projects.

In 2008 the Water System Acquisition and Rehabilitation Program Workgroup followed up with these same water systems, as well as others, to update the estimate of need as requested by the legislature. The Department of Health and contractors identified potential projects and associated costs by contacting state and local health agencies, publicly-owned water utilities (PUDs, cities, counties, water-sewer districts, port districts, irrigation districts), and organizations such as the Rural Community Assistance Corporation and Evergreen Rural Water of Washington. Group B water systems were not included in this estimate.

In total, utilities identified 78 potential WSARP projects, representing $43.7 million in total acquisition and rehabilitation costs, and approximately $21.9 million in total potential program grant requests based on current project costs. The average potential grant request was $383,593. These projects represent a total of at least 14,249 customers and 5,415 connections. Appendix B has more details from respondents.

Respondents could not provide cost estimates for 21 of the potential projects identified. The potential acquiring systems had yet to complete a feasibility study or otherwise lacked adequate knowledge about the water system's acquisition and rehabilitation needs to forecast project costs. Given the average project cost of $383,593 identified for the other 57 potential projects, we can estimate that total project costs for the additional 21 projects would approximate $8 million.

[5] $1 million of these funds were a direct appropriation for the City of Republic to acquire and rehabilitate the Pine Grove water system.

[6] Appropriations in the 2007-2009 capital budget bill assisted the Port of Walla Walla in acquiring and rehabilitating water systems in the Burbank area ($1.621 million) and the Chelan PUD in consolidating and improving water service in the Monitor area ($800,000).

This coarse estimate would yield a total Water System Acquisition and Rehabilitation Program project need forecast of above $29 million, which we consider a low end of the total need in Washington for water system acquisition and rehabilitation assistance.

This estimate likely represents the low end of the total need in Washington for water system acquisition and rehabilitation assistance for a number of reasons. While the workgroup made all attempts to reach the maximum number of possible acquiring systems, it had to confine its efforts to a limited period. The workgroup made no concerted attempt to identify Group B projects. Because there are more than 13,000 Group B water systems in Washington, the addition of Group B eligibility could represent a large additional funding need. Rising costs for construction projects could increase costs at 10 percent per year or more based on recent construction inflation indices. The workgroup believes the identified need for WSARP, $21.9 million, is a **minimum** estimate of program funding needs.

Program administration costs

To date, the agencies administering the Water System Acquisition and Rehabilitation Program have absorbed associated administrative costs, which is not sustainable.

The Department of Health currently administers the application cycle and selection of projects. The department estimates that if the application cycle operates on an annual or open basis, staff demands will be about 0.3 FTE, or $72,000 per biennium. Department of Community, Trade, and Economic Development manages WSARP projects, and estimates staffing needs at 0.5 FTE to oversee the contract management and closeout of grant contracts. Department of Community, Trade, and Economic Development costs would be about $60,670 per biennium, with an additional start-up cost of $8,200. Projected administrative costs for the 2009-2001 biennium are $149,870.

Recommendations
Based on identified needs for at least $21.9 million in WSARP funds, the WSARP Workgroup recommends WSARP funding of $12 million biennially over the next two biennia, with an additional $150,000 biennially for administrative costs on an ongoing basis.

Funding Sources

Since 2003 the Water System Acquisition and Rehabilitation Program (WSARP) has received funding through the State Building Construction Account. However, demands on that account have climbed in recent years. Given the need to identify stable, long-term funding to address drinking water supply issues, the program workgroup researched and considered a range of alternate funding sources. The workgroup believes that consistent, long-term stable funding should come from a combination of multiple sources.

This section consists of a discussion of proposed alternative funding sources for WSARP, and does not represent an agreed-upon selection of funding sources to pursue. Instead, the workgroup identified all potential funding sources along with a consideration of advantages and disadvantages of each option. Potentially, long-term funding will come from a combination of sources.

A. Bottled Water Tax

Many people consume bottled water instead of tap water because it is convenient or because they have concerns about the safety of tap water. We estimate consumers spend $267 million[7] a year on bottled water in Washington. Taxing the sales of bottled water and devoting the revenue to water infrastructure and management projects would help to ensure the safety of Washington's tap water.

A major advantage to taxing the sales of bottled water is the link between bottled water consumption and tap water availability and safety. Additionally, the potential revenues are large, while the cost to consumers would be minimal.

Any new tax has the disadvantage of facing opposition as well as competition for the resource by other programs or initiatives. The Water System Acquisition and Rehabilitation Program Workgroup expects that extending the sales tax to bottled water might be more politically and administratively feasible than creating a new tax.

The workgroup identified two approaches:

1. Extend the state sales tax to small containers of bottled non-carbonated water; and
2. Establish a new tax specifically for bottled non-carbonated water.

1. Extend sales tax to bottled water

Currently canned and bottled carbonated waters are subject to the Washington State sales tax rate of 6.5 percent, plus local rates. Assessing the state sales tax on bottled non-carbonated water could generate revenues of about $17.4 million annually. Bottled water taxes should be limited to bottles at or under a certain size (e.g., one gallon). Only taxing smaller bottles helps minimize the possibility of assessing taxes on water purchased as a necessary alternative to an unsafe drinking water source. The goal would be to tax only discretionary purchases of bottled water.

[7] Estimated using national bottled water sales figures ($12.573 billion annually, International Bottled Water Association) and national and state population figures. This rough estimate assumes bottled water consumption per capita is equivalent across the United States.

2. Establish a revenue tax on bottled water

Alternatively, the workgroup discussed a new tax established specifically for bottled, non-carbonated water. The goal would be to tax only discretionary purchases of bottled water. As before, the tax should be limited to bottles at or under a certain size (e.g., one gallon). Only taxing smaller bottles helps minimize the possibility of assessing taxes on water purchased as a necessary alternative to an unsafe drinking water source.

Department of Revenue assessed revenue potential from a bottled water tax for the 2007 Implementation of Reclaimed Water Use Report, with data summarized in Table 4[8]. Calculations assume that the tax would be imposed on a per-ounce basis.

Table 4. Potential Revenue from a Bottled Water Tax [8]

Tax Rate Per Ounce	Tax on a 16-oz Bottle	Projected Revenues		
		FY 2009	FY 2010	FY 2011
$0.001113	$0.02	$25,000,000	$26,000,000	$27,000,000
$0.002227	$0.04	$50,000,000	$52,000,000	$54,000,000
$0.003340	$0.05	$75,000,000	$78,000,000	$81,000,000
$0.004454	$0.07	$100,000,000	$103,900,000	$108,000,000

B. Public Utility Tax Revenues

Under current law, the state public utility tax applies to gross income derived from the distribution of water and the collection of sewage. The public utility tax is imposed on the service provider, in lieu of the business and occupation tax. Consumers often view the public utility tax as being similar to the sales tax because utilities often itemize the tax on utility bills. Currently, the public utility tax rate imposed on water distribution activities is 5.029 percent; the rate imposed on sewerage collection is 3.852 percent. The state deposits 20 percent of the monies into the Public Works Assistance Account[9]; and the rest into the state's general fund. The Water System Acquisition and Rehabilitation Program Workgroup considered proposals to increase the rate imposed on water distribution activities, as well as retaining a portion of the revenues generated by the water distribution tax for the program.

[8] Washington Departments of Ecology, Health, and General Administration, and the City of Olympia. December 2007. *Implementation of Reclaimed Water Use: 2007 Report to the Governor and State Legislature.* Appendix C.
[9] The Public Works Assistance Account also receives monies from the solid waste collection tax, real estate excise tax, and loan repayment.

Increase tax rate on water distribution (Public Utility Tax)

State Department of Revenue assessed revenue potential from an increase in the public utility tax increase in the Implementation of Reclaimed Water Use Report, reflected in Table 5.

Table 5. Potential Revenue from an Increase in the Public Utility Tax on Water Distribution[10]

Tax Rate on Water Distribution	FY 2009 Additional Revenue
5.029% (current rate)	$0
5.301%	$2,000,000
5.715%	$5,000,000
6.404%	$10,000,000
7.093%	$15,000,000

This tax proposal has an advantage because of the relevance to the need for water system acquisition and rehabilitation. Because the tax already exists, the additional administrative effort for the Department of Revenue should be minimal. The tax represents a statewide, stable funding source. A rate change could generate significant revenues for the Water System Acquisition and Rehabilitation Program (WSARP). Creating a new tax rate of 5.715 percent (a roughly 14 percent increase) would generate an estimated $10 million in revenue on a biennial basis.

The disadvantage to increasing the public utility tax is that it would be a regressive tax. All Washington residents that pay a water bill pay this tax, as a necessary household expenditure. An increase in the public utility tax may disproportionately affect low-income households. Utilities could object to the regressive nature of the tax and what they may see as continued diversion of revenues from this tax away from their highest priority needs.

Retain a portion of the water distribution tax revenue

The public utility tax on water distribution activities currently generates revenues of about $73 million biennially. Currently 80 percent of this money is deposited into the general fund, which has total revenues of about $39 billion biennially. The Public Works Assistance Account receives the remaining 20 percent of the revenues from the public utility tax on water distribution. Instead of increasing the tax rate to fund WSARP, more revenue could be diverted from the general fund and dedicated to the program. Department of Revenue assessed potential revenue to be diverted from the general fund to an alternate dedicated fund, reflected in Table 6.[11]

[10] Washington Departments of Ecology, Health, and General Administration, and the City of Olympia. December 2007. *Implementation of Reclaimed Water Use: 2007 Report to the Governor and State Legislature.* Appendix C.
[11] Washington Departments of Ecology, Health, and General Administration, and the City of Olympia. Op.cit.

Table 6. Potential Diversions of Water Distribution Tax Revenues to a Water System Acquisition and Rehabilitation Program Account

Percent of Tax Revenues to WSARP Account	ANNUAL Amount to WSARP Account	Annual Amount to General Fund	Annual Amount to Public Works Account
0%	-	$29,164,000	$7,291,000
5%	$1,823,000	$27,341,000	$7,291,000
10%	$3,646,000	$25,519,000	$7,291,000
15%	$5,468,000	$23,696,000	$7,291,000
20%	$7,291,000	$21,873,000	$7,291,000
25%	$9,114,000	$20,050,000	$7,291,000

This option requires no new taxes, which would be a distinct advantage. The public utility tax is an existing, stable funding source. No funds would come from the Public Works Assistance Account. Water utilities likely would support this approach as a way to fund the Water System Acquisition and Rehabilitation Program (WSARP) because it would direct more of the revenue from this tax to projects that improve water service in the state.

The main disadvantage would be diverting resources away from the state general fund. Using the projections in Table 6, the amount would range from $3.6 - $18.2 million biennially, representing a minimal 0.009 percent to 0.05 percent of the estimated $39 billion in general fund revenues for 2005-2007.[12] For example, diverting approximately 15 percent of the revenues from the public utility tax on water distribution activities to a WSARP account would generate about $11 million biennially for program projects, while only decreasing general fund revenues by about 0.03 percent. In any of these options, there would be only a small administrative burden on the Department of Revenue.

The workgroup recognizes, however, that diverting public utility tax revenue from the state general fund to WSARP would likely be difficult, particularly because tax receipts declined during the recent biennium and the revenue shortfall currently facing the state.

C. Insurance – Trust Account or Bonds

Creating a system for a type of water system "insurance" account may require water systems to pay into some form of trust account or bond the system. This approach places the majority of the financial burden for the program on developers and operators of water systems rather than the public.

[12] Washington Office of Financial Management.

Trust account

A trust account could be established and funded through either a development fee levied on new water systems or an annual fee assessed on all water systems. A development fee on all new water systems might help to curb the rapid proliferation of small water systems and help fund Water System Acquisition and Rehabilitation Program (WSARP). Most new water systems created are Group B water systems. Typically, fewer than 50 Group A water systems form each year. Because of the small numbers, levying fees on new Group A water systems alone would not yield sufficient revenue to support the program.

Currently the Department of Health does not award program funding to acquire Group B water systems unless the project also includes acquisition of a Group A water system. While this report recommends extending eligibility to acquisition and rehabilitation of Group B water systems in certain cases, extending the fee to all new water systems would place most of the burden on water systems currently ineligible for WSARP funding.

Another approach would be to charge all existing Group A water systems a fee that would be put into the trust account. The fee could either appear as a surcharge on the Group A operating permit fee. Another option is to levy a surcharge on those water systems without graduated rate schedules that charge higher rates for higher water consumption. While this approach would help to encourage conservation, the workgroup does not believe it will generate significant revenue to fund WSARP. Either of these options will require legislative action because the operating permit fees are set in RCW 70.119A.010.

Bond

Alternatively, all new water systems could be required to issue a bond when created. The water system would repay the bond through a surcharge in its customers' monthly rates. For example, the customers of a water system with 100 connections, which issued a $1 million bond, would pay between $30 and $40 per month, depending on the interest rate. The bonds could be used to establish a fund for a number of water system improvements. However, it is unclear who would have oversight responsibilities for the funds. The Utilities and Transportation Commission does not regulate publicly owned water suppliers, and the department's oversight responsibilities do not extend to this type of scenario.

D. Retail Sales and Use Taxes Diversion

A sales-and-use tax diversion to a dedicated program account could fund the Water System Acquisition and Rehabilitation Program. Funding for water pollution control facilities comes through a similar mechanism. All funds from sales or use taxes on items destined for water-pollution control facilities and activities funded by the water quality account are deposited into

the water quality account (RCW 82.32.390).

This approach has a distinct advantage in that a portion of the sales-and-use tax revenue attributable to water distribution facilities would fund the program. However, sales and use taxes would not be a stable source of revenue because they depend on the level of funding for the facilities. In addition, administering the diversion of funds would require additional resources.

E. General Obligation Bonds

State general obligation bonds could be created, using the previous models of Referendums 27 and 38, and two water-project-funding measures. Legislation in 1979 created the Referendum 38 Water Supply Construction Grant Program, which was used for agricultural irrigation projects and municipal water projects, including acquisition and rehabilitation assistance. Washington voters authorized $125 million in state general obligation bonds in 1980 for planning, acquisition, construction, and improvement of water supply facilities.

At the time, the public supported this approach. A large majority of voters approved both Referendums 27 and 38. However, state-issued bonds may not be possible under the current bond cap. In addition, the Referendum 38 program allocated funds for municipal water projects. The allocated funds were used up within five years. The state would have to design this program carefully to provide long-term funding.

F. Water Quality Account

The Water Quality Account (Fund 139) provides financial assistance towards achieving state and federal water pollution control requirements. Revenue sources include the cigarette tax, specific retail-and-use tax revenues, investment income, and loan principal repayment. The legislature capped the maximum size of the account, and general fund monies can be used to supplement revenues to reach that cap, as needed. Monies can be used for grants or loans to public entities, including cost shares.

Although the Water System Acquisition and Rehabilitation Program (WSARP) is an appropriate use of the Water Quality Account, many existing programs use the account for a range of activities: water pollution control facilities and activities, water resources and water quality activities, water conveyance projects, shoreline technical assistance, Puget Sound education and outreach, and watershed planning under chapter 90.82 RCW.

Agencies that receive funds from this account include special appropriations to the Governor's Office, Department of Ecology, State Conservation Commission, Puget Sound Partnership, the Department of Health, Department of Natural Resources, Department of Agriculture, Department of Fish and Wildlife, and Recreation and Conservation Funding Board.

G. Public Works Assistance Account

The Public Works Assistance Account (Fund 58) provides loans and gives financial guarantees to local governments for public works projects. The main program financed by the account is the Public Works Trust Fund, which issues low-interest loans for projects that improve basic infrastructure (water, wastewater, solid-waste, and recycling systems, roads, and bridges). The account funding comes from the solid waste collection tax, public utility tax, real estate excise tax, and loan repayment, including 20 percent of all funds collected by the water distribution tax discussed above.

After consideration, the workgroup concluded that Public Works Assistance Account is not an appropriate funding source for the Water System Acquisition and Rehabilitation Program (WSARP) for two reasons:

1. The account operates on a revolving loan model not suitable for a grant-only program.
2. WSARP applicants would compete for funding with Public Works Trust Fund loan applicants.

Local governments and Public Works Trust Fund depend on Public Works Trust Fund financing for their projects, and applications for Public Works Trust Fund loans far exceed the funding available. Using the Public Works Assistance Account to finance program grants would mean even less funding would be available for loan projects.

Recommendations

With these caveats, the WSARP Workgroup views most of these options as worthy of further consideration. Because the transition to an alternative funding source will take time, and WSARP needs 2009-2011 funding to remain a viable program, the workgroup recommends that program funding for the 2009-2011 biennium come from the State Building Construction Account, as in previous years.

Funding and Application Cycles

Currently, the Department of Health evaluates the Water System Acquisition and Rehabilitation Program (WSARP) projects once per biennium. Negotiations between the two water systems associated with a potential WSARP project frequently happen outside of the funding cycle, which creates uncertainty. As a result, acquiring water systems often wait for the next open funding cycle before proceeding, prolonging the public health threats and reducing likelihood for successfully completing the transaction.

Creating an annual funding cycle would improve likelihood for success. The annual cycle would also be a more consistent approach for the agencies to administer.

However, an annual cycle may still fail to mesh with the timing of negotiations between many water systems. Water systems would benefit most from an open cycle allowing them to get the grant dollars as soon as they are ready to proceed. Administrative challenges to this approach include making certain funds remain available throughout the cycle; ensuring full use of funds; ensuring eligibility for all applicants, and creating a minimum threshold score that projects must meet.

Recommendations
The workgroup recommends that the program offer an annual application and funding period (two cycles per biennium). The Department of Health may consider changing the program guidelines to an open application cycle over time.

Form of Funding Assistance

The Water System Acquisition and Rehabilitation Program (WSARP) could be eligible to a wider array of water systems in need and would have an ongoing revenue source if the program included loans in addition to, or instead of, grants. The program workgroup felt that many existing programs provide loan assistance. WSARP's unique structure provides grants funding that aids many utilities in making projects affordable that otherwise would not be.

Recommendation
By providing cost-share grants, WSARP assists systems that do not have the financial resources to repay loans. To continue filling this important niche, the workgroup recommends that the program continue to offer grants only.

Eligibility

Current WSARP eligibility requirements ensure that only publicly owned Group A water systems with a good track record of performance can acquire problem water systems. Applicants must:

- Own at least one Group A water system.
- Be a Group A water system for at least five years.
- Have an approved water system plan for the applicant system or be an approved satellite management agency.
- Have no state or federal civil penalties issued in the past five years.
- Have no unilateral enforcement orders from EPA or the Department of Health in the past five years.
- Have no water system operator's license suspended or revoked in the past five years.
- Be current with the department's fee payment schedule.

Other, case-by-case considerations include good standing operating permit status, prior contract performance, and audit findings.

In developing recommendations to strengthen the program, the legislature directed the department in SSB 6340 to review several issues regarding program eligibility, such as:

- Extending eligibility to include acquisition and rehabilitation of Group B water systems;
- Funding activities beyond acquisition, preconstruction design, and construction, including administrative costs;
- Requiring water systems to install service meters in funded projects;
- Considering municipalities eligible regardless of whether they have owned and operated a Group A water system for at least five years;
- Allowing eligible water systems that have already acquired a troubled water system to recover any outstanding rehabilitation costs of the acquired system; and
- Considering the water system's rate base and the ability of the households on the system to afford rate increases to fund a portion of the necessary water system rehabilitation.

This section presents the workgroup's review and recommendations for each of these eligibility issues.

Extending Eligibility to Include Group B Water Systems

Currently projects involving a combination of Group A and Group B water systems that result in the creation of a Group A water system are eligible for Water System Acquisition and Rehabilitation Program (WSARP) funds. However, projects to acquire Group B water systems alone, or to consolidate several Group B water systems into either a larger Group B or a Group A water system, are not currently eligible.

Reducing the number of very small Group B water systems by consolidating them into larger, well-managed Group A water systems would improve public health by ensuring safer and more reliable drinking water service. At the same time, although Group B systems represent the majority of small water systems in Washington, Group Bs serve relatively few people. Therefore, the total program need for Group B water systems may not be as great as with Group A water systems.

Recommendations

The workgroup was concerned that WSARP needs already exceed available funding, and extending eligibility to Group B water systems would increase the need and the competition for the funds. Therefore, the workgroup recommends that the department develop criteria that would expand the eligibility to Group B water systems only in certain cases that would have significant public health benefits.

Activities Eligible for Funding

Water System Acquisition and Rehabilitation Program (WSARP) funds are not currently used to fund activities beyond acquisition or rehabilitation such as feasibility studies.

Feasibility studies

Most water systems conduct simple feasibility studies before starting an acquisition or rehabilitation project. They may be more likely to consider a project if they could attain funding to conduct a more complete study before initiating a project that on the surface does not appear financially feasible. Funding feasibility studies would also help agencies ensure projects with the highest potential for public health outcomes receive WSARP funds.

Other fund sources help pay for feasibility studies, including Community Development Block Grants, U.S. Department of Agriculture Rural Development, and Drinking Water State Revolving Fund Set-Asides. Better publicity about these available funds could improve the likelihood that studies are conducted without making changes to the program.

Recommendations
The WSARP Workgroup does not recommend that the program extend eligibility to fund feasibility studies. However, it does recommend that if existing funding sources for feasibility studies are reduced or no longer available, the Department of Health should reconsider funding feasibility studies. The department could also investigate feasibility analysis funding options, such as a revolving loan model.

Requiring Service Meters

SSB 6340 includes a provision for this report to address whether installation of service meters should be required in Water System Acquisition and Rehabilitation Program projects. Service meters are not currently required for WSARP-funded projects. However, the law defines most publicly owned Group A water systems as municipal water suppliers and requires them to install water meters under the Water Use Efficiency Rule (WAC 246-290-496). Metering requirements under the Water Use Efficiency Rule should help to ensure that WSARP projects conserve water resources, and use state funds responsibly.

Recommendations
Including a metering requirement for WSARP-funded projects ensures consistency with state policies on water use efficiency. Therefore, the workgroup recommends that water service meters be required for all WSARP-projects.

Experience Owning and Operating a Group A Water System

Current guidelines require water systems own and operate a Group A water system for at least five years to be eligible for Water System Acquisition and Rehabilitation Program. This ensures that the acquiring water system has the expertise to achieve the intended public health outcomes.

However, some utilities that have relevant management experience, but not sufficient experience with water system management, are not able to acquire and rehabilitate nearby systems with significant public health problems.

Recommendations
The workgroup recommends expanding eligibility to Group A water systems with relevant utility management and ownership experience as prioritized below:

- Tier 1: At least five years experience owning and operating a water utility or being a department-approved satellite management agency.
- Tier 2: At least five years relevant utility ownership and operation experience.

Costs for Rehabilitation-only Projects

Rehabilitation-only projects are not currently eligible for funding. Frequently, utilities could acquire troubled water systems at low cost using their own funds. Because the water system acquired often needs rehabilitation, the public utility may be reluctant to take on potential problems because of fears to have to use significant funds to make needed repairs or upgrades at some point in the future.

Extending eligibility to post-acquisition rehabilitation would allow water systems to take advantage of acquisition opportunities as they arise and still be eligible to obtain funds for rehabilitation. This option positions utilities to apply for program funding at the time they need funding and not before the project is ready to proceed.

Recommendations
The workgroup recommends that the state expand eligibility to rehabilitation projects if the acquisition occurred within five years of the application submittal.

Consideration of a Community's Ability to Meet Financial Costs

Utilities receive Water System Acquisition and Rehabilitation Program funding as part of a package that may also include other grants and loans. Utilities also fund acquisition and rehabilitation with property assessments, and capital cost surcharges on customer rates. Ideally, the utilities put an affordable funding package together. The program helps projects remain affordable.

The Department of Health assesses the affordability of a project for the water system's customers during the scoring and prioritization process. At the same time, Public Works Board staff assesses the project's readiness to proceed. Through these considerations, the department and the Public Works Board ensure that WSARP funding goes to communities that could not support water system rehabilitation without program funds. The agencies avoid inappropriately subsidizing projects in communities that could actually have supported costs fully with rate increases.

Recommendations
The Water System Acquisition and Rehabilitation Program Workgroup recommends the program continue its current approach to assessing affordability.

Prioritization

Currently, the department uses a program prioritization process that follows the nationally vetted Drinking Water State Revolving Fund model.

Department of Health staff score each eligible project based on five defined risk categories, with the first receiving the most points and successive categories receiving fewer points:

1. Microbial risks.
2. Primary inorganic chemical risks.
3. Other primary chemical risks.
4. Secondary chemical or seawater intrusion risks.
5. Infrastructure replacement or other distribution improvements.

Projects may also receive bonus points for specific characteristics such as:

- Addressing existing or potential compliance problems.
- Restructuring.
- Regional benefits.
- Providing solutions for multiple areas of public health risk.
- Affordability.

- Plans to install service meters.

Cities and counties required to plan under the Growth Management Act may lose a point for failure to develop the necessary comprehensive plan and development regulations.

Department staff reviews each project's score, and then develops a draft ranked list of projects for funding. Next, the Public Works Board staff reviews prior contract performance, and determines readiness to proceed. The Public Works Board then approves the final list, allocates funding according to the prioritized list, and executes contracts.

Over the years, the department has modified the prioritization process to reflect lessons learned in previous years. This flexibility to tailor the prioritization process ensures that the most qualified projects receive funding.

SSB 6340 directed the department to review several issues regarding Water System Acquisition and Rehabilitation Program (WSARP) project prioritization including:

- Considering benefits other than public health or water quality, such as economic benefits;
- The project priority-setting process and relative priority for funding projects for water systems that serve few residential customers; and
- Tiering project priorities so assisting water systems with high public health risks gets the highest priority.

Considering Other Benefits

WSARP was developed to "*provide assistance to counties, cities, and special purpose districts to identify, acquire, and rehabilitate public water systems that have water quality problems or have been allowed to deteriorate to a point where public health is an issue*" (SSB 5401, Section 130, 2003). The WSARP Workgroup considered economic benefits in prioritizing projects as going beyond the state policy objectives for the program, which focus on public health protection.

Recommendations
The workgroup believes that economic benefits result when communities obtain safe and reliable drinking water. It recommends no changes to the benefits considered in the prioritization process.

Water Systems Serving Few Residential Customers

The Department of Health currently gives a lower priority to water systems serving few residential customers by using number of customers as a tiebreaker during the prioritization process. If two projects receive identical scores, the water system with more customers receives higher priority. This ensures that the state's financial investment in public health benefits the majority of people.

The department will retain its ability to address serious public health situations in very small non-residential water systems such as schools, camps, senior centers, or other facilities that serve vulnerable populations. The workgroup recommends no change to the prioritization of residential water systems serving few customers.

Recommendations

For very small water systems, projects costs may far exceed the benefits. The department maintains a cap on the amount awarded per service connection to ensure a degree of balance between costs and benefits. The current cap is $10,000 per connection. The workgroup recommends increasing the amount for the cap to account for inflation, to $13,000 per connection. The workgroup also recommends that the department continue to maintain a per-connection cap to prevent costs from exceeding benefits. The department prefers to have discretion on how to define a service connection for non-residential projects.

Prioritizing Public Health Risk

When the Department of Health prioritizes projects, we first determine which of the following five categories of public health risks the project will resolve, listed in order of priority:

1. **Microbial risk**. Project activities may include new source, source reconstruction, disinfection improvements, filtration, and reservoir improvements.
2. **Primary inorganic chemical risk**. Risk chemicals include antimony, arsenic, asbestos, barium, beryllium, cadmium, chromium, copper, cyanide, excess fluoride, lead, mercury, nickel, nitrate, nitrite, selenium, and thallium. Project activities may include new source, source reconstruction, and treatment.
3. **Other primary chemical risk**. Risk chemicals may include trihalomethanes, radionuclides, and organic chemicals. Project activities may include new source or treatment.
4. **Secondary chemical risk or seawater intrusion**. Risk chemicals may include chloride, excess fluoride, iron, manganese, silver, sodium, sulfate, and zinc. Project activities may include new source or treatment.
5. **Infrastructure replacement or other distribution improvements**. Project activities may include installation of source meters, an additional distribution reservoir, pressure reduction devices, backflow prevention devices, or replacement of infrastructure.

For more detail on the current approach for prioritizing projects according to public health risk, please see the score sheets from the 2007 WSARP application cycle in Appendix C.

Recommendations

The WSARP Workgroup recommends that the agencies continue to manage the prioritization process, modifying it as the need arises.

Conclusions

The Water System Acquisition and Rehabilitation Program (WSARP) Workgroup urges the legislature to act on its recommendation for funding for WSARP, at the level of $12 million biennially, with additional funding for administration at $150,000 biennially. The workgroup identified needs for at least $21.9 million in program funds. At this funding level, projects identified by the workgroup could be funded over the next four years.

Action on this report's recommendations, combined with stable long-term funding for both WSARP grants and for program administration, should help ensure that the program continues to assist Washington's water systems in providing safe and reliable drinking water.

Appendices

Appendix A: Summary of all Water System Acquisition and Rehabilitation Program Applicants

Funded Projects, 2003-2007

Applicant	Water system	County	Legis. district(s)	Water supply issue addressed	# of connec-tions	Project scope	Total grant	Rehab. costs ($)	Acquis. costs ($)	% of grant for acquis.
2003 Funded Projects										
Pasadena Park Irrigation District	Orchard Prairie School District #123	Spokane	4	C (N)	2250	Cons, Int	203,423	199,673	3,750	0
Mason PUD	Canal Beach & Glen Ayr	Mason	35	C (mic), I	139	Int, Sou	169,750	164,250	5,500	1
Skagit PUD /Judy Res	Skagit View Village	Skagit	40	C (Cu), I	128	Inf, Sou	122,009	112,771	9,238	2
Cedar River Water & Sewer District	Dorre Donn	King	5	C (mic)	77	Int, Inf	984,223	984,223	0	0
Silverdale Water District	Olympic View Road	Kitsap	23	C (mic)	76	Int, Inf	624,725	624,725	0	0
Mason PUD	Arcadia Estates	Mason	35	C (mic), I	64	Sou	101,000	101,000	0	0
Whatcom PUD	Cherry Point	Whatcom	42	C (mic), I	60	Cons, Int	375,826	375,826	0	0
Chehalis, City of	Newaukum Village	Lewis	20	C (mic), WQ	42	Int, Inf	469,773	469,773	0	0
Stevens PUD	Chattaroy Springs West	Spokane	7	C (mic), WQ	37	Inf, Sou	220,300	216,550	3,750	2
Stevens PUD	Dolomite	Spokane	7	C (mic)	25	Inf	64,520	64,520	0	0
Skagit PUD /Judy Res	Marblemount LUD #28	Skagit	40	C (mic), I	22	Cons, Inf	142,712	142,712	0	0
Jefferson PUD	Quilcene	Jefferson	24	C (mic, I	15	Cons	338,562	337,062	1500	1.5
Olympia, City of	Woodland Park	Thurston	22	C (mic), I	15	Int, Inf	203,625	199,500	4,125	6
Juniper Beach Water District	Second Chance Thrift Shop	Island	10	C (As)	2	Int	19,194	19,194	0	0

Water supply issue codes:
C = contamination
Risk Category 1: Mic = microbial
Risk Category 2: As = arsenic, Be = beryllium, Cd = cadmium, Cu = copper, N = nitrate, Pb = lead
Risk Category 3: Organics = Organic chemicals
Risk Category 4: Fe = iron, Mn = manganese, SW = sea water intrusion
I = infrastructure
WQ = water quantity

Project scope codes:
Int = intertie
Inf = infrastructure
Sou = source

Applicant	Water system	County	Legis. district(s)	Water supply issue addressed	# of connec-tions	Project scope	Total grant	Rehab. costs ($)	Acquis. costs ($)	% of grant for acquis.
2005 Funded Projects										
Kitsap PUD	Frog Pond	Kitsap	23,26,35	C (mic), WQ	1308	Cons, Sou	372,000	222,000	150,000	30
Snohomish PUD	Kayak Estates	Snohomish	38	C (mic, Mn), WQ	370	Inf	500,000	358,750	141,250	28
Chelan PUD	Monitor area	Chelan	12	C (N), WQ	90	Cons, Int	500,000	498,225	1,775	0.4
Whitworth Water District	North Glen	Spokane	4,5,7	C (organics)	72	Inf	446,897	446,897	0	0
Lake Whatcom Water & Sewer District	Lake Whatcom Residential Treatment Center	Whatcom	42	C (Fe, Mn)	1	Cons, Inf	186,887	186,887	0	0
2007 Funded Projects										
Enumclaw, City of	Y Bar S	King	31	C (Cu, Pb)	105	Int, Inf	687,291	607,291	80,000	8
Jefferson PUD /Quimper	Olympic Mobile Village	Jefferson	24	C (mic, Fe, Mn), I	99	Int, Inf	296,519	281,519	15,000	2
Stevens PUD - Spokane Lake Park	Spokane Lake Park	Spokane	7	C (mic), I	95	Cons, Int	449,500	444,500	5,000	1
Skagit PUD /Judy Res	Samish River Park	Skagit	40	C (mic), I	87	Int, Inf	362,388	362,388	0	0
Pacific PUD	Wilson Point	Pacific	19	C (mic), I	68	Inf	106,000	106,000	0	0
Malaga Water District	Stemilt Irrigation District	Chelan	12	C (mic)	55	Inf, Sou	530,000	524,000	6,000	2
Stevens PUD	Chattaroy Springs North	Spokane	7	C (As, Be), WQ	55	Cons, Inf	119,050	102,050	17,000	11
Kitsap PUD	Sunrise Beach	Kitsap	23	C (mic, Cd, Fe, Mn, SW)	40	Int	150,210	150,210	0	0
Stevens PUD	Riverside	Spokane	7	C (risk category 2), WQ	36	Cons, Inf	49,042	0	49,042	46
Republic, City of	Pine Grove	Ferry	7	C (Fe, Mn), I		Inf	1,000,000	1,000,000	0	0

Water supply issue codes:
C = contamination
- Risk Category 1: Mic = microbial
- Risk Category 2: As = arsenic, Be = beryllium, Cd = cadmium, Cu = copper, N = nitrate, Pb = lead
- Risk Category 3: Organics = Organic chemicals
- Risk Category 4: Fe = iron, Mn = manganese, SW = sea water intrusion

I = infrastructure
WQ = water quantity

Project scope codes:
Int = intertie
Inf = infrastructure
Sou = source

Unfunded Projects, 2003-2007

Applicant	Water system	County	Legis. district(s)	Water supply issue addressed	# of connec-tions	Project scope	Reason not funded
2003 Unfunded Projects							
Lacey, City of	Betti's Hawks Prairie	Thurston	22	C (mic), I	120	Inf	F
Mason PUD	Twanoh Heights	Mason	35	C (mic)	85	Sou	F
Covington Water District	Ravensdale	King	5	I	61	Inf, Int	F
Covington Water District	Sawyerwood	King	5	C (Cu, Pb)	61	Inf, Sou	WD
Richland, City of	Horn Rapids	Benton	8	I	45		IE (already owns project system)
Cedar River Water & Sewer District	Orchard Grove	King	5	C (mic), I	42	Inf, Int	WD
Spokane, City of	Vel-View	Spokane	5	I	42	Inf, Int	F
Stevens PUD	Mission Lake/Mission Ridge	Stevens	7	C (Fe, Mn), I	40	Inf	F
Stevens PUD	Dennison Estates	Spokane	7	C (Cu)	40		IE (three Group B systems)
Pasadena Park Irrigation District	Pleasant Prairie	Spokane	4	C (N)	37	Inf	F
Skagit PUD	Guemes Channel	Skagit	40	I	36	Inf	WD
Cross Valley Water District	Mountain View Terrace	Snohomish	39	I	33	Inf	F
Stevens PUD	Indian Village Estates	Spokane	7	C (N), WQ, I	32	Inf, Sou	F
Tumwater, City of	Jones Industrial Park	Thurston	22	I	24	Inf	F
Grays Harbor County	Ocean City Water Works	Grays Harbor	7	I	20	Cons, Inf	F
Silverdale Water District	Hogan	Kitsap	23	I	16	Inf	F
Moab Irrigation District	East Side	Spokane	7	I, WQ	11	Int	IE (Group B)

Water supply issue codes:
C = contamination
- Risk Category 1: Mic = microbial
- Risk Category 2: As = arsenic, Be = beryllium, Cd = cadmium, Cu = copper, N = nitrate, Pb = lead
- Risk Category 3: Organics = Organic chemicals
- Risk Category 4: Fe = iron, Mn = manganese, SW = sea water intrusion

I = infrastructure
WQ = water quantity

Project scope codes:
Int = intertie
Inf = infrastructure
Sou = source

Reason not funded codes:
F = Fell below funding cut-off
IE = ineligible
WD = withdrawn by applicant

Applicant	Water system	County	Legis. district(s)	Water supply issue addressed	# of connec-tions	Project scope	Reason not funded
2005 Unfunded Projects							
Snohomish PUD	Candy Cane Park	Snohomish	39	C (mic), WQ	105	Int	F
Grays Harbor Water District	Sea Winds Estates & Harper's Tract	Grays Harbor	24	C (SW)	33		IE (no record of sound management)
Skamania PUD	Port of Skamania / Carson	Skamania	15	I	18		F
Lamont, Town of	domestic water system	Whitman	9	I	1	Int	F
2007 Unfunded Projects							
Whitworth Water District	Spokane County Water District - Chattaroy	Spokane		C (Fe, Mn)	539	Int	F
Kennewick Irrigation District	Elliot Lake	Benton	8,16	I	118	Inf	F
Basin City Water & Sewer District	Basin City	Franklin	9	C (N)	106	Int, Sou, Inf	F
Elmer City	Elmer City - Riverview-Lone Pine	Okanogan	7	C (mic)	53	Inf, Int	F
Bullerville Utility District		Skagit	40		41	Inf	IE (no 5 years relevant experience)
Pend Oreille PUD	Lenora	Pend Oreille	7	C (As)	34		F
Snohomish PUD	Pilchuck 26	Snohomish	39	I	28	Inf, Int	F
Freeland Water & Sewer District	Harbor Hill & Sunnyview Farm	Island	10	I	24	Inf, Sou	F
Lake Whatcom Water & Sewer Dist.	Lake Whatcom Residential	Whatcom	42	C, WQ	1	Cons, Inf	F

Water supply issue codes:
C = contamination
- Risk Category 1: Mic = microbial
- Risk Category 2: As = arsenic, Be = beryllium, Cd = cadmium, Cu = copper, N = nitrate, Pb = lead
- Risk Category 3: Organics = Organic chemicals
- Risk Category 4: Fe = iron, Mn = manganese, SW = sea water intrusion

I = infrastructure
WQ = water quantity

Project scope codes:
Int = intertie
Inf = infrastructure
Sou = source

Reason not funded codes:
F = Fell below funding cut-off
IE = ineligible
WD = withdrawn by applicant

Appendix B: Water System Acquisition and Rehabilitation Program Funding Needs

In 2006-2007 an informal assessment was conducted of the funding needs for water system acquisition and rehabilitation in Washington. The respondents, a broad range of municipal agencies, identified nearly $18 million in potential Water System Acquisition and Rehabilitation Program (WSARP) grant requests. In the summer and fall of 2008, the WSARP Workgroup followed up with these water systems about estimated costs for future acquisition and rehabilitation projects, in order to develop an up-to-date estimate of funding needs.

Workgroup members, the Department of Health, and contractors contacted regional departmental offices, municipal agencies eligible for funds (PUDs, cities, counties, water and sewer districts, port districts, irrigation districts), and organizations such as the Rural Community Assistance Corporation and Evergreen Rural Water of Washington. These entities were asked about costs associated with acquiring and rehabilitating local water systems experiencing significant problems, in addition to information about the expected year in which the program grant request would be made, the number of customers and/or connections on the water system, and its Group A or Group B status.

As of October 16, 2008, department staff and contractors have learned about 57 potential projects, representing $43.7 million in total acquisition and rehabilitation costs, and $21.9 million in potential program grant requests. Respondents identified funding as the main barrier to water system acquisition and rehabilitation projects. The workgroup expects that only a portion of the water systems in need of acquisition and rehabilitation assistance were identified through this informal survey, thus this estimate represents the minimum need for WSARP funds.

Complete results are shown in the tables on the following pages. These project costs are estimates made by water system staff. Data on population served and number of connections were either provided by water system staff or, if not provided, were located using the department's Sentry database. The department has not assessed the eligibility of these projects for WSARP funds.

An additional 21 potential WSARP projects are shown on the last page of this appendix. Water systems contacted about these potential projects had yet to complete a feasibility study or otherwise lacked adequate knowledge about the water system's acquisition and rehabilitation needs to forecast project costs. Given the average project cost of approximately $380,000 for the 57 projects with current cost estimates, we can estimate that total project costs for the additional 21 projects would be close to $8 million. This would yield a total WSARP project need forecast of nearly $30 million. While this is a coarse estimate, it underscores the expectation that the full range of need for program funds is underestimated through the data presented on the following pages.

Potential Water System Acquisition and Rehabilitation Program Projects with Cost Estimates

Municipal Agency	Water System Name	Population Served	Number of Connections	Group A or B	Proposed Acquisition Year	Estimated Project Cost ($)	Estimated WSARP Grant Request ($)[13]	Estimated WSARP Grant Request ($) with 10% Inflation
Birch Bay Water & Sewer District	Cherry Point Industrial Area	unknown	unknown	A	unknown	$1,200,000	$600,000	$660,000
Bonney Lake, City of	Tapps Island	1500	530	A	2010-2011	$4,500,000	$2,250,000	$2,475,000
Cedar River Water & Sewer District	Reed Ranch	42	14	A	unknown	$1,167,258	$583,629	$641,992
Centralia Utilities	Cherry Blossom	200	42	A	unknown	$200,000	$100,000	$110,000
Clallam PUD	Parkwood	400	200	A	2009	$1,750,000	$875,000	$962,500
Covington Water District	Ravensdale Water Supply Company, Ravensdale Mobile Home Park	*128*	51	A, B	unknown	$742,806	$371,403	$408,543
Covington Water District	Sawyerwood Water Association	11	3	A	unknown	$277,828	$138,914	$152,805
Covington Water District	Butcher, AC	23	9	B	unknown	$108,000	$54,000	$59,400
Downing Townsite Water District	Bar Development Water Users Association, Rich Acres, Rocky Buttee	*40*	16	A	2009-2010	$1,350,000	$675,000	$742,500
Dupont, City of	El Rancho Madrona	93	33	A	2010	$300,000	$150,000	$165,000
Elmer City Water System	Riverview Water Association	25	8	B	2009	$750,000	$375,000	$412,500
Elmer City Water System	Lone Pine Water Association	38	28	A	2009	$750,000	$375,000	$412,500
Evergreen Water & Sewer District	Whatcom County Water District#13	795	347	A	unknown	$300,000	$150,000	$165,000
Freeland Water & Sewer District	Harbor Hills Community Water System	30	15	B	unknown	$250,000	$125,000	$137,500
Freeland Water & Sewer District	Sunnyview Terrace Association Inc	8	4	B	2008	$250,000	$125,000	$137,500

[13] These figures are based on estimated project costs, and do not necessarily represent the sum for which the water system would be eligible under current WSARP guidelines.

Municipal Agency	Water System Name	Population Served	Number of Connections	Group A or B	Proposed Acquisition Year	Estimated Project Cost ($)	Estimated WSARP Grant Request ($)[14]	Estimated WSARP Grant Request ($) with 10% Inflation
Highland Water District	Sultan Estates	12	4	B	unknown	$1,000,000	$500,000	$550,000
Jefferson PUD	Sahara Water Services, Inc	15	8	B	2009	$150,000	$75,000	$82,500
Jefferson PUD	Quimper – Sahara	20	8	B	2009	$75,000	$37,500	$41,250
Jefferson PUD	Brinnon Area	100	50	B	2011	$750,000	$375,000	$412,500
Kitsap PUD	Port Gamble	200	83	A	2009	$1,200,000	$600,000	$660,000
Kitsap PUD	Bill Point	200	84	A	2009	$800,000	$400,000	$440,000
Kitsap PUD	Priddy Vista	200	83	A	2009	$700,000	$350,000	$385,000
Kitsap PUD	Viewside Community	155	48	A	2009	$400,000	$200,000	$220,000
Kitsap PUD	Country Meadows	90	31	A	2010	$200,000	$100,000	$110,000
Kitsap PUD	Emerald Heights	200	79	A	2010	$600,000	$300,000	$330,000
Monroe, City of	Marbello	291	88	A	unknown	$600,000	$300,000	$330,000
Oak Harbor, City of	Heathrow	54	27	A	unknown	$350,000	$175,000	$192,500
Oak Harbor, City of	Indian Ridge Water Co.	119	40	A	unknown	$500,000	$250,000	$275,000
Omak, City of	Suncrest Plat	224	84	A	unknown	$350,000	$175,000	$192,500
Pasadena Park Irrigation District	Spokane Christian Center	250	1	A	2009	$250,000	$125,000	$137,500
Pend Oreille PUD	Ponderay Shores Water	43	60	A	2009-2010	$350,000	$175,000	$192,500
Pend Oreille PUD	Goosehaven	75	46	A	2009-2010	$340,000	$170,000	$187,000
Pend Oreille PUD	Metaline Water System	176	86	A	2009-2010	1,500,000.00	$750,000	$825,000
Pend Oreille PUD	Town of Cusick	420	230	A	2010-2011	1,700,000.00	$850,000.00	$935,000
Republic, City of	Pine Grove System	200	80	A	2009-2010	$2,500,000	$1,250,000	$1,375,000
Sallal Water Association	Mt. Si Motel	7	11	B	unknown	$25,000	$12,500	$13,750
Skagit PUD	McHaven Water System	89	35	A	unknown	$366,000	$183,000	$201,300
Skagit PUD	Lower Cedardale Water Co.	30	14	B	unknown	$288,000	$144,000	$158,400

[14] These figures are based on estimated project costs, and do not necessarily represent the sum for which the system would be eligible under current WSARP guidelines.

Municipal Agency	Water System Name	Population Served	Number of Connections	Group A or B	Proposed Acquisition Year	Estimated Project Cost ($)	Estimated WSARP Grant Request ($)[15]	Estimated WSARP Grant Request ($) with 10% Inflation
Snohomish PUD	Pilchuck 26	66	23	B	unknown	$763,750	$381,875	$420,063
Snohomish PUD	Lochaven	225	83	B	unknown	$313,081	$156,541	$172,195
Stevens PUD	Riverside	400	90		2009	$300,000	$150,000	$165,000
Stevens PUD	Loon Lake	49	200	A	2010	$400,000	$200,000	$220,000
Stevens PUD	Loon Lake	50	15	A	2009	$150,000	$75,000	$82,500
Stevens PUD	Spokane Lake Park	30	7		2010	$150,000	$75,000	$82,500
Stevens PUD	Lake Spokane	32	4	B	2010	$700,000	$350,000	$385,000
Sunnyside, City of	Outlook Community Water	282	66	A	unknown	$2,200,000	$1,100,000	$1,210,000
Thurston PUD	Cedarwood	117	44	A	2009	$700,000	$350,000	$385,000
Thurston PUD	Wildaire Estates	160	56	A	2009	$120,000	$60,000	$66,000
Walla Walla, City of	Wallula Water District	200	50	A	unknown	$500,000	$250,000	$275,000
Whitworth Water District	Chattaroy Hills Water System	539	210	A	2009	$2,482,920	$1,241,460	$1,365,606
Whitworth Water District	Colbert Water System	188	75		2009	$2,000,000	$1,000,000	$1,100,000
Yakima County Public Works	Outlook Community Water System	282	66	A	unknown	$2,200,000	$1,100,000	$1,210,000
Yakima County Public Works	Outlook Elementary School	600	1	A	unknown	$660,000	$330,000	$363,000
Yakima County Public Works	Wolfe System	*68*	27	A	unknown	$200,000	$100,000	$110,000
Yakima County Public Works	Butterfield	108	40	A	unknown	$600,000	$300,000	$330,000
Yakima County Public Works	Cascade Park	250	30	A	unknown	$200,000	$100,000	$110,000
Yakima County Public Works	Neal Valley View	50	20	A	unknown	$200,000	$100,000	$110,000
Totals:						**$43,729,643**	**$21,864,822**	**$24,051,304**

[15] These figures are based on estimated project costs, and do not necessarily represent the sum for which the system would be eligible under current WSARP guidelines.

Potential Water System Acquisition and Rehabilitation Program Projects without Cost Estimates

Municipal Agency	Water System Name	Population Served	Number of Connections	Group A or B	Estimated Project Cost ($)
Covington Water District	Welch's Water	69	23	A	U[16]
Covington Water District	Lake Retreat Camp & Conference Center	25 (379 non-residential)	25	A	U
Deer Creek Water Association	Laurel West	42	11	A	U
Deer Creek Water Association	Guide Meridian	190	80	A	U
North Bend, City of	Snoqualmie Valley Land Co.	80	1	A	U
North Perry Ave Water District	South Keyport Heights	103	41	A	U
Oak Harbor, City of	Wagonwheel Mobile Home Park	150	70	A	U
Parkland Light & Water	Martens Addition	98	32	A	U
Parkland Light & Water	Pinewood Glen	70	30	A	U
Snohomish PUD	Mountain Loop View Tracts	200	91	A	U
Snohomish PUD	Meadow Lake Water Association	171	52	A	U
Snohomish PUD	Tatoosh Water Co.	249	110	A	U
Snohomish PUD	Green Water Meadows	60	unknown	A	U
Snohomish PUD	Warm Beach Water Association	940	500	A	U
Snohomish PUD	Thunderbird Terrace	72	24	A	U
Snohomish PUD	Rim Rock	68	31	A	U
Snohomish PUD	Sky Meadow	960	384	A	U
Snohomish PUD	Green Velvet	24	13	B	U
Snohomish PUD	Meadow Ridge	175	67	A	U
Snohomish PUD	Kackman Creek	330	143	A	U

[16] U indicates that project costs are unknown due to the lack of a feasibility study or lack of comprehensive knowledge about the water system's acquisition and rehabilitation needs.

Appendix C: Score Sheets, 2007 Water System Acquisition and Rehabilitation Program Guidelines

Project Prioritization Ranking Criteria

All eligible applications will be scored based on the following criteria. An application will receive points in only one of the sections.

RISK CATEGORY 1. The proposed project will eliminate **Microbial Risk** by:

TYPE OF PROJECT	POINTS*
New Source	85
Source Reconstruction	80
Disinfection Improvements	75
Filtration	75
Reservoir Improvements	65
Other	65 – 85
BONUS POINTS	
Compliance Status	0 / 20 / 35*****
Restructuring	3 / No limit
Regional Benefit	0 - 5
Multiple Benefit	0 - 4
Affordability	0 - 10
Service Meter Installation	0 / 2
GMA Compliance	-1 / 0

Examples of Microbial Risk:

- Disinfection projects
- Source projects, including source reconstruction and new sources that replace existing sources
- Covering, repair, replacement or other improvements to existing distribution reservoirs

RISK CATEGORY 2. The proposed project will eliminate **Primary Inorganic Chemical Risk** by:

TYPE OF PROJECT	POINTS*
New Source	80
Source Reconstruction	75
Treatment	70
Other	70 - 80
BONUS POINTS	
Compliance Status	0 / 20 / 35*****
Restructuring	3 / No limit
Regional Benefit	0 – 5
Multiple Benefit	0 – 4
Affordability	0 – 10
Service Meter Installation	0 / 2
GMA Compliance	-1 / 0

Examples of Primary Inorganic Chemical Risk:

- Antimony (Sb)
- Arsenic (As)
- Asbestos
- Barium (Ba)
- Beryllium (Be)
- Cadmium (Cd)
- Chromium (Cr)
- Copper (Cu)
- Cyanide (HCN)
- Fluoride (F) (exceedance of 4.0 MCL)
- Lead (Pb)
- Mercury (Hg)
- Nickel (Ni)
- Nitrate (as N)
- Nitrite (as N)
- Selenium (Se)
- Thallim (Tl)

RISK CATEGORY 3. The proposed project will eliminate **Other Primary Chemical Risk** by:

TYPE OF PROJECT	POINTS*
New Source	70
Treatment	65
Other	65 - 70
BONUS POINTS	
Compliance Status	0 / 20 / 35*****
Restructuring	3 / No limit
Regional Benefit	0 – 5
Multiple Benefit	0 – 4
Affordability	0 – 10
Service Meter Installation	0 / 2
GMA Compliance	-1 / 0

Examples of Other Primary Chemical Risk:

- Trihalomethanes
- Radionuclides

RISK CATEGORY 4. The proposed project will eliminate **Secondary Chemical / Sea Water Intrusion Risk** by:

TYPE OF PROJECT	POINTS*
New Source	50
Treatment	45
Other	45 - 50
BONUS POINTS	
Compliance Status	0 / 10 / 35*****
Restructuring	3 / No limit
Regional Benefit	0 – 5
Multiple Benefit	0 – 4
Affordability	0 – 10
Service Meter Installation	0 / 2
GMA Compliance	-1 / 0

Examples of Secondary Chemical / Sea Water Intrusion Risk:

- Chloride (Cl)
- Fluoride (F) (exceedance of 2.0 MCL)
- Iron (Fe)
- Manganese (Mn)
- Silver (Ag)
- Sodium (Na)
- Sulfate (SO4)
- Zinc (Zn)

RISK CATEGORY 5. The proposed project will provide **Infrastructure Replacement or Other Distribution Improvements** by:

TYPE OF PROJECT	POINTS*
Distribution Reservoir (new / add'l)	30
Water Main & Other Distribution Improvements	25
Installation of Pressure Reduction Device (stand-alone)	20
Installation of Backflow Prevention Device (stand-alone)	15
Other	1 - 30
BONUS POINTS	
Compliance Status	0 / 10 / 35*****
Restructuring	3 / No limit
Regional Benefit	0 – 5
Multiple Benefit	0 – 4
Affordability	0 – 10
Service Meter Installation	0 / 2
GMA Compliance	-1 / 0

Examples:

- Installation of source meters
- Installation of additional distribution reservoir
- Installation of pressure reduction device(s)
- Installation of backflow prevention device(s)
- Replacement of infrastructure

Appendix D: Substitute Senate Bill 6340

CERTIFICATION OF ENROLLMENT

SUBSTITUTE SENATE BILL 6340

60th Legislature
2008 Regular Session

Passed by the Senate February 18, 2008
YEAS 44 NAYS 0

President of the Senate

Passed by the House March 7, 2008
YEAS 94 NAYS 0

Speaker of the House of Representatives

Approved

Governor of the State of Washington

CERTIFICATE

I, Thomas Hoemann, Secretary of the Senate of the State of Washington, do hereby certify that the attached is **SUBSTITUTE SENATE BILL 6340** as passed by the Senate and the House of Representatives on the dates hereon set forth.

Secretary

FILED

Secretary of State
State of Washington

SUBSTITUTE SENATE BILL 6340

Passed Legislature - 2008 Regular Session

State of Washington 60th Legislature 2008 Regular Session

By Senate Water, Energy & Telecommunications (originally sponsored by Senators Rockefeller, Morton, Sheldon, Swecker, Hobbs, Berkey, and Kilmer)

READ FIRST TIME 01/18/08.

AN ACT Relating to water system acquisition and rehabilitation; adding a new section to chapter 70.119A RCW; and creating new sections.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** The legislature finds that it is the state's policy to maintain the highest quality and reliability of drinking water supplies to all citizens of the state. Small water systems may face greater challenges in this regard because of declining quality in water sources, catastrophic events such as flooding that impair water sources, the age of the system's infrastructure, saltwater intrusion into water sources, inadequate rate base for conducting necessary improvements, and other challenges. In response to these needs, the water system acquisition and rehabilitation program was created through biennial budget law, and through the current biennium has a total of nine million seven-hundred fifty thousand dollars toward assisting dozens of water systems to improve the quality of water supply service to thousands of customers.

It is the purpose of this act to establish an ongoing water system acquisition and rehabilitation program, to direct a review of the

program to date, and to provide for recommendations for strengthening the program and increasing the financial assistance available under the program.

NEW SECTION. **Sec. 2.** A new section is added to chapter 70.119A RCW to read as follows:

Subject to the availability of amounts appropriated for this specific purpose, the department shall provide financial assistance through a water system acquisition and rehabilitation program, hereby created. The program shall be jointly administered with the public works board and the department of community, trade, and economic development. The agencies shall adopt guidelines for the program using as a model the procedures and criteria of the drinking water revolving loan program authorized under RCW 70.119A.170. All financing provided through the program must be in the form of grants that partially cover project costs. The maximum grant to any eligible entity may not exceed twenty-five percent of the funds allocated to the appropriation in any fiscal year.

NEW SECTION. **Sec. 3.** (1) The department of health, in consultation with the public works board, shall prepare a report on the water system acquisition and rehabilitation program in section 2 of this act and make recommendations regarding strengthening the program and increasing the financial assistance provided through the program.

(2) The report shall:

(a) Identify the state's policies and objectives regarding water system management, operation, and regulation, including regionalization, satellite management, and prevention of the proliferation of small water systems; and

(b) Review the program's projects initiated and completed to date, and other state funding assistance for water system acquisition and rehabilitation.

(3) The report shall also review and make recommendations on the following:

(a) Funding levels and funding sources;

(b) The form of assistance provided, whether grants or loans;

(c) Funding cycles, including an annual or open cycle;

(d) Eligibility of group B systems for assistance;

(e) Consideration of benefits other than public health or water quality benefits, such as economic benefits;

(f) Activities that may be funded beyond acquisition, preconstruction design, and construction, including the cost to agencies to operate the program;

(g) The project priority setting process and relative priority for funding projects for systems that serve few residential customers;

(h) Requiring installation of service meters in funded projects;

(i) Eligibility for grants of municipalities that have not owned and operated a group A water system for at least five years;

(j) Allowing an eligible purveyor that has already acquired a failing water system to be eligible for grants to cover any outstanding costs of the rehabilitation of the failing water system;

(k) Tiering of project priorities to provide the highest priority to assisting systems with a high public health risk; and

(l) Consideration of the system's rate base and the ability of the households on the system to afford rate increases to fund a portion of the necessary system rehabilitation.

(4) The report shall include a survey of estimated water system acquisition and rehabilitation program funding needs, based on existing informal survey information from local governments, the utilities and transportation commission, and purveyors.

(5) The report shall be provided to the fiscal and water policy committees of the senate and house of representatives not later than January 1, 2009.

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