



Agency Recommendation Summary

The Department of Health requests continued funds for the consolidation grant program using the Drinking Water State Revolving Fund loan origination fee account to address the promotion of small Group A water systems (municipal owned water systems) consolidation into larger Group A water systems with greater technical, managerial, and financial capacity. To promote consolidations, ODW offers consolidation grants to study the feasibility of consolidation, conduct preconstruction activities such as engineering design and planning, and pay utility connection fees. Currently, ODW does not have the spending authority to continue to offer these grants.

Fiscal Summary

Fiscal Summary <i>Dollars in Thousands</i>	Fiscal Years		Biennial	Fiscal Years		Biennial
	2024	2025	2023-25	2026	2027	2025-27
Staffing						
FTEs	0.0	0.0	0.0	0.0	0.0	0.0
Operating Expenditures						
Fund 05R - 1	\$404	\$404	\$808	\$0	\$0	\$0
Total Expenditures	\$404	\$404	\$808	\$0	\$0	\$0
Revenue						
05R - 0420	\$690	\$709	\$1,399	\$709	\$709	\$1,418
Total Revenue	\$690	\$709	\$1,399	\$709	\$709	\$1,418

Decision Package Description

Problem:

There are 1,857 Group A community water systems that serve 1,000 people or less in Washington State. Small public water systems are often less resilient to natural disasters, such as earthquakes and wildfires, less resilient to climate change and drought, have more difficulty adjusting to regulatory changes, and may struggle to fund infrastructure maintenance and replacement due to poor economies of scale and lack of staff.

Water systems with a population of less than 100 people are more likely to have violations of the Safe Drinking Water Act (SDWA) and the cost to address contamination is higher per person. These impacts are experienced inequitably by smaller water systems and those populations already living in these overburdened communities.

ODW has been funding consolidation feasibility studies since 2004 using set-aside funds from the annual EPA Capitalization Grant. The grant program was suspended in 2017 and 2018 due to budget issues but given the popularity and high success rate of this program leading to a consolidation, DWSRF state rules were modified to allow DWSRF loan origination fee funds to be used for Consolidation Feasibility Study Grants. The program was reinstated in 2019 and has been funded out of the DWSRF loan origination fee funds (05R). ODW did not offer a consolidation cycle in 2021 but reinstated the grant cycle in 2022.

ODW opened a grant cycle in June of 2022. ODW made \$400,000 available. The maximum grant available per project is \$50,000, the minimum is \$10,000. ODW received 17 applications requesting over \$822,000. Clearly, the demand for consolidations is more than available. The request for spending authority will help meet this demand.

Proposal:

To continue this grant program, ODW is asking for an increase in the allocation from the loan origination fee account of \$800,000 for next biennium, FY24 and FY25. This will allow ODW to continue to fund \$400,000 grant cycles each year with the ability to offer additional grants with the maximum amount of \$50,000 for each consolidation. These funds will potentially lead to consolidation of 16 water systems.

Consolidation is either: (1) physically joining two or more separate water systems into one Group A water system; or (2) changing ownership of a water system where the prospective new owner is a public entity, also referred to as restructuring. Consolidation activities include, but are not limited to, water system planning, feasibility studies, public outreach and meetings, engineering design, and connection of Group A water systems.

Between 2004 and 2020 the consolidation grant program:

Consolidated 55 small, struggling Group A water systems, into larger water systems with 14 of these using the grant to pay connection fees.

Established ownership by a PUD, water district, city, or county for nine (9) Group A systems by way of restructuring.

Funding for this proposal will be through the loan origination fee account. This account is funded through the 1% loan fee on ODW's State Revolving Fund (SRF) construction loans and 2% on preconstruction loans. This account funds 2.8 FTE to administer the SRF program. The current cash balance of the fund is \$3.8M with an annual income of approximately \$700,000 and a total annual budget of \$658,000. Increasing the consolidation grants will continue to spend down this account balance.

Communities served by smaller water systems experience more health disparities and inequities. Many water systems do not have the resources to pay for expensive repairs and upgrades due to aging infrastructure, contamination, or meet new regulations. By consolidating or restructuring the ownership of water systems we can decrease the number of small water systems in Washington, thereby supporting underserved, overburdened communities by increasing the economies of scale, ensure infrastructure maintenance and replacement, and ensure safe and reliable tap water now and into the future.

This proposal:

Supports failing and struggling small community water systems by providing funding options in order to maintain a safe and reliable drinking water supply.

Supports smaller and often low-income overburdened communities by increasing the economy of scale to operating and maintaining water systems.

Helps to establish more climate resilient water systems.

Alternative:

ODW evaluated discontinuing the consolidation grant program as the program did in 2017 and 2018. However, eliminating the funding increases the barriers for small disadvantaged, underserved communities to consolidate or restructure the ownership of their water systems.

ODW evaluated using DWSRF set asides to fund the consolidation grants as was previously done. ODW is considering using the set asides to fund connection fee only consolidations, because these consolidations cannot be funded using the loan origination fee account since there is no resulting construction project. Additionally, ODW hopes to use the increase in set asides from the Bipartisan Infrastructure Law to provide direct technical assistance to small disadvantaged water systems by providing contracts and funding for direct engineering and planning services to water system, application assistance, and project management.

In response to ODW discontinuing the program in 2017, many water utilities, public utility districts, water and sewer districts, cities and counties supported and successfully lobbied for the 2018 legislature appropriation of \$5 million for Drinking Water System Repairs and Consolidation (DWSRC) to further promote consolidation projects. The 2018 Construction Loan cycle include the availability of the DWSRC funds. ODW received applications for \$10.1M in consolidation construction projects. Seven consolidation and restructuring projects were funded in whole or in part with the consolidation grant funding. DWSRF loan funding was awarded if needed to provide a complete funding package for consolidation construction projects.

Assumptions and Calculations

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

This request would maintain the funding for the consolidation grant program over the next two (2) years.

Detailed Assumptions and Calculations:

This request would maintain the funding for the consolidation grant program over the next two (2) years. ODW estimates awarding eight (8) grants each year (potentially leading to consolidation of 16 water systems over the biennium) as demand for the program has remained steady throughout the years.

Workforce Assumptions:

No additional staff is requested in this proposal

Strategic and Performance Outcomes

Strategic Framework:

The proposal contributes to the Governor's Results Washington goal of Healthy and Safe Communities by funding infrastructure consolidation feasibility studies, pre-design and pre-construction activities to promote consolidation of water systems to ensure safe and reliable drinking water to communities throughout the state.

Department of Health New Transformational Plan

This proposal directly supports the Dept. Of Health's Transformational Plan Priorities of: I. Health and Wellness, III. Environmental Health, and IV. Emergency Response and Resilience in that All Washingtonians have the opportunity to attain their full potential of physical, mental, and social health and well-being. In addition, Washingtonians will thrive in a broad range of healthy environments — natural, built, and social, and all Washington communities have the information and resources they need to build resilience in the face of myriad public health threats and are well-positioned to prepare for, respond to, and recover from emergencies and natural disasters.

The proposal relates to agency's strategic plan, including Outward Mindset, Funding, and Equity, Diversity, and Inclusion foundational transformations. The consolidation grant program helps meet our agency needs by ensuring safe and reliable drinking water and our partners utilities to ensure they are providing safe and reliable drinking water to all people of Washington. By consolidated or restructuring the ownership of water systems, we can decrease the number of small water systems in Washington, equitably supporting underserved, overburdened communities by increasing the economies of scale, and ensuring infrastructure maintenance and replacement using innovative technologies.

Performance Outcomes:

Consolidation grants help support the restructuring and direct connection of water systems by allowing the receiving agencies to complete important steps prior to consolidation, lessening the burden on the small communities being consolidated. The availability of this funding removes a barrier for receiving agencies who cannot use existing rate payer funds for these necessary studies. These grants prepare water systems for consolidation by conducting feasibility studies, developing water system plans, public outreach and education, engineering design, and pay facility development charges for connections. The department proposes the following performance measure:

Reduce the number of water systems with less than 1,000 connections out of compliance with national and state drinking water regulations.

Equity Impacts

Community outreach and engagement:

ODW publishes grant guidelines and scoring criteria every year and holds webinars describing eligible projects and application requirements for water systems prior to opening each grant cycle. ODW solicitates input on grant guidelines and scoring criteria from the Drinking Water Advisory Group (DWAG). ODW established the DWAG in 2013 because our program wants to hear from our drinking water partners on important issues. Meetings cover a range of drinking water discussion topics, including general updates, new rules, policy, and budget issues. Anyone working in the drinking water industry is welcome to attend.

Disproportional Impact Considerations:

This funding is only eligible for federally regulated public water systems or for communities that come together to create a Group A public water system (federally regulated). While these systems serve the majority of the disadvantaged communities in our state, this funding does not directly support small rural individual well or Group B water systems unless they can consolidate into a larger public system.

Target Populations or Communities:

An increase in consolidation grant funding will increase the people of Washington's access to safe and reliable tap water. Safe tap water is essential for our communities for cooking, drinking, and sanitation needs but also ensures a vibrant economy. The department's scoring process gives funding priority to projects that address severe public health threats and compliance issues.

This funding supports small water systems, the grant scoring criteria also includes bonus points to prioritize projects more likely to result in future consolidation, affect more than one system, and benefit disadvantaged systems. Disadvantaged communities are identified as system to be consolidate which have at least 50 percent of the service area within an area ranked 8 or higher on the Environmental Health Disparities V1.1 or Social Economic Factors as identified on our Washington Tracking Network (WTN).

By consolidated or restructuring the ownership of water systems, the program can decrease the number of small water systems in Washington, equitably supporting underserved, overburdened communities by increasing the economies of scale, and ensuring infrastructure maintenance and replacement using innovative technologies. Through engagement, education and outreach with system managers, staff identify what barriers exist and how to best assist water systems with consolidation by conducting feasibility studies, developing water system plans, engineering design, and paying facility development charges for connections. ODW is incorporating the environmental health disparities map in our grant scoring criteria to ensure the grants provide environmental benefits towards overburdened communities and vulnerable populations.

Other Collateral Connections

Puget Sound Recovery:

NA

State Workforce Impacts:

NA

Intergovernmental:

Consolidation grants are supported by water system utilities owned by city and county governments along with other quasi-government entities include public utility districts, water and sewer districts, and homeowner associations.

Stakeholder Response:

Consolidation grants are supported by water system utilities owned homeowner associations and for-profit utilities.

State Facilities Impacts:

NA

Changes from Current Law:

NA

Legal or Administrative Mandates:

NA

Reference Documents

- [Backup - ODW - Consolidation Grant 05R - Decision Package.docx](#)
- [FINAL - ODW - 05R Consolidation Grant DP 2023 Session_submitted to CBO \(1\) \(1\).xslm](#)

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. E	\$400	\$400	\$800	\$0	\$0	\$0
Obj. N	\$4	\$4	\$8	\$0	\$0	\$0

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