



2019-21 Biennium Budget Decision Package

Agency: 303 - Department of Health
Decision Package Code-Title: 2D - Align Drinking Water Funding
Budget Session: 2019-21 Regular
Budget Level: Policy Level
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Agency Recommendation Summary

The Department of Health requests additional fund 05R appropriation authority to align funding with staffing costs and provide consolidation grants to successful water utilities to study the feasibility of owning, operating, and maintaining smaller failing water systems within their service areas.

Fiscal Summary

Dollars in Thousands

Operating Expenditures	FY 2020	FY 2021	FY 2022	FY 2023
Fund 05R - 1	\$417	\$417	\$417	\$417
Total Expenditures	\$417	\$417	\$417	\$417
Biennial Totals		\$834		\$834
Staffing	FY 2020	FY 2021	FY 2022	FY 2023
FTEs	1.0	1.0	1.0	1.0
Average Annual		1.0		1.0
Object of Expenditure	FY 2020	FY 2021	FY 2022	FY 2023
Obj. A	\$150	\$150	\$150	\$150
Obj. B	\$53	\$53	\$53	\$53
Obj. E	\$56	\$56	\$56	\$56
Obj. N	\$150	\$150	\$150	\$150
Obj. T	\$8	\$8	\$8	\$8

Package Description

The Department of Health is requesting additional 05R appropriation authority to adequately cover staffing costs and provide consolidation feasibility grant funds to encourage the consolidation of smaller failing water systems with larger well run utilities.

ESSB 5251 transferred the underwriting and loan administration functions of the Drinking Water State Revolving Fund (DWSRF) loan program from the Department of Commerce to the Department of Health (DOH). When DOH did its estimates for that legislation, the range of staff positions was underestimated, as was the number of open contract agreements DOH would initially receive in the final transfer. Additionally, many projects did not close out as planned due to the tardiness of the 2017-2019 Capital Budget. The current ratio of contracts to contracts management staff is 79 to 1, which doesn't allow for support for the new contracts coming in and reduces the level of thoroughness and completeness of the work. This increases our risk of errors and could lead to problems during annual review by the Environmental Protection Agency.

Additionally, consolidation of smaller, failing water systems with larger, well-run utilities is needed all across the state. 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. Consolidating failing systems into larger, well-run systems is a best practice. For a utility to assess whether acquiring and consolidating one or more small failing system is even feasible involves studies, legal costs, preliminary engineering costs, and system development costs for connections that can't be passed on to a current customer base.

In the past, DOH has used temporarily available 04R federal funds (used to spend down the unliquidated loan obligation (ULO)), which is now spent down) to provide consolidation grant funding for utilities that are willing to acquire other non-compliant or failing public water systems that have water quality problems or deteriorated infrastructure. Municipal Group A water systems (15 or more service connections or serve 25 or more people 60 or more days per year) are eligible to apply for up to \$30,000 for consolidation projects, including feasibility studies, legal costs, preliminary engineering costs, and system development costs for connections. In 2017, DOH received 17 consolidation grant applications but were only able to award five projects, for a total of \$150,000 (in the past four years, 16 of the 23 consolidation-type projects funded [or 70%] had received a consolidation feasibility grant). The scoring process gives funding priority to utilities that demonstrate a track record of sound management and have ready-to-proceed projects that address severe public health threats and compliance issues. Providing support to utilities to determine the feasibility of taking on a smaller, failing system, makes a difference. This ensures the people in Washington state have safe and reliable drinking water.

What alternatives did you explore and why was this option chosen?

There are only two available funding sources for administering the DWSRF loan program staff: new annual federal awards and the dedicated account 05R, which is funded by loan fees. Estimated new federal award amounts are not sufficient to support the increased staffing costs, so this fund was selected. Not funding would require a cut in staffing, decreasing customer service and increasing the risk of errors and audit risk.

What are the consequences of not funding this proposal?

Since the federal funds DOH used in the past to fund consolidation feasibility grants are no longer available, and since consolidation feasibility grants result in new DWSRF loans, the 05R account is an appropriate source. Not funding provides no incentive for well-run utilities to take on small failing ones.

Assumptions and Calculations

Expansion or alteration of a current program or service:

Historical, current, and projected DWSRF Administration costs (including consolidation grants):

		DWSRF Loan Administration costs			
		(DOH&COM)	05R	04R	Notes:
Actuals	FY2016		451,240	947,900	
	FY2017		648,503	863,548	
	FY2018		547,760	634,145	
Projections	FY2019		371,000	376,144	Projections include: - No contract with COM for admin costs as of July 1, 2018 - COM not spending 05R anymore as of July 1, 2018 - Includes requested addtl 05R authority from this DP
	FY2020		788,000	376,144	
	FY2021		788,000	376,144	
	FY2022		788,000	376,144	
	FY2023		788,000	376,144	

Detailed assumptions and calculations:

The Department of Health is requesting \$148,000 05R authority annually to align positions and ranges of staff in order to allow for appropriate level of service and oversight of the DWSRF loan program. Costs in the original proposal were for positions that are better described under the commerce specialist classification.

Original, inadequate positions and ranges	3.0 FTE Environmental Specialist 3	\$462,000
	1.0 FTE Environmental Planner 4	
	4.0 FTE total	

Proposed correct positions and ranges	1.0 FTE Commerce Specialist 3	\$610,000
	2.0 FTE Commerce Specialist 5	
	1.0 Environmental Engineer 5	
	4.0 FTE total	
Difference:	0.0 FTE	\$148,000

DOH is also requesting 1.0 FTE Commerce Specialist 2 and \$119,000 in 05R authority to help manage construction loan projects and grant offerings for both the DWSRF and Pollution Liability Insurance Agency (PLIA). DOH has 48 projects under construction plus an additional 24 that went to contract after the consolidation of the DWSRF program from COM to DOH. Currently this work is being done by the supervisor which is not allowing him to complete some of the duties he is responsible for. This Commerce Specialist 2 position will also allow for an appropriate contracts to contracts management staff ratio (40 to 50 contracts per staff, rather than the current 79 per staff) that will reduce the potential for errors, problems during the annual review by the Environmental Protection Agency, and federal audit risk. Having personnel at appropriate position levels and ratio to contracts leads to successful oversight and administration of the loan program.

\$150,000 per fiscal year (FY) 05R authority is requested for consolidation/feasibility grants. Municipal Group A water systems are eligible to apply for up to \$30,000 for consolidation projects, including feasibility studies, legal costs, preliminary engineering costs, and system development costs for connections. DOH has found these grants to be quite effective and result in actual consolidation construction projects. The scoring process gives funding priority to utilities that demonstrate a track record of sound management and have ready-to-proceed projects that address severe Providing support to utilities to determine the feasibility of taking on a smaller, failing system, makes a difference. This ensures the people in Washington state have safe and reliable drinking water.

FY 2020 and ongoing – 1.0 FTE and \$417,000 Note: this proposal does not affect the overall fund management of the Drinking Water Assistance Account (Fund 04R) since the Drinking Water Assistance Administrative Account (Fund 05R) use is limited to loan administration activities.

Workforce Assumptions:

See attachment "Align Drinking Water Funding FNCAL."

Strategic and Performance Outcomes

Strategic framework:

This proposal supports Results Washington goal 2: “Prosperous Economy” and Results Washington. Safe and reliable water from well-run utilities is a cornerstone of public health and investment to our economy. Business, industry, and communities are founded based upon adequate water supplies.

This proposal also supports DOH's goal 1: “People in Washington are protected from acute communicable diseases and other health threats.” Utilities targeted for consolidation loans are typically ones in crisis with multiple violations of public health risk.

Performance outcomes:

There are no current tracked measures in Results Washington or in OFM’s Performance Management System. However, implementing a consolidation grant program from a sustainable source of funding helps address some of the highest risk public water supply situations. It focuses on reducing the overall number of water utilities in the state of Washington which helps make water safer with costs better defrayed across the people.

Other Collateral Connections

Intergovernmental:

Municipalities statewide fully support this proposal. Adequate staffing providing a high level of service for our grant and loan program is important to them. Additionally, these organizations are big proponents of having grant funding available when conducting feasibility work around taking on smaller failing water systems.

Stakeholder response:

Water Utility organizations such as the Washington Public Utility District Association and the Washington Association of Water and Sewer Districts fully support this proposal. Adequate staffing providing a high level of service for our grant and loan program is important to them. Additionally, these organizations are big proponents of having grant funding available when conducting feasibility work around taking on smaller failing water systems.

Legal or administrative mandates:

None.

Changes from current law:

None.

State workforce impacts:

None.

State facilities impacts:

None.

Puget Sound recovery:

None.

Agency Questions

Did you include cost models and backup assumptions?

Yes.

Reference Documents

- 2D Align Drinking Water Funding 05R charts.xlsx
- 2D Align Drinking Water Funding FNCAL.xlsx

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