State of Washington
Decision Package

FINAL

Agency: 303 Department of Health
Decision Package Code/Title: N6 Consolidate Drinking Water Loans
Budget Period: 2013-15
Budget Level: PL-Performance Level

Recommendation Summary Text:

The Drinking Water State Revolving Fund provides low interest infrastructure loans to public water systems to address public health compliance issues. The loan program is currently administered jointly by the Departments of Health, Commerce, and the Public Works Board. This request is to consolidate all loan administration to the Department of Health. Administrative cost savings gained through efficiencies will be redirected to water system infrastructure projects. This recommendation is the result of a multi-agency, multi-stakeholder lean initiative.

Fiscal Detail

Operating Expenditures			**FY 2016**	**FY 2017**	**Total**
	04R-2	Drinking Water Assist Account	205,000	84,000	289,000
Total Cost			**205,000**	**84,000**	**289,000**
Staffing			**FY 2016**	**FY 2017**	**Annual Avg**
	FTEs		**1.8**	**3.6**	**2.7**
Revenue					
	Fund	**Source**	**FY 2016**	**FY 2017**	**Total**
05R	Drinking Water Assis Adm	0299 Other Licenses, Permits&Fees		765,000	765,000
04R	Drinking Water Assist	0366 Environmental Protect Agency	205,000	84,000	289,000

Package Description:

The Drinking Water State Revolving Fund (DWSRF) is a federal infrastructure loan program established by the Safe Drinking Water Act. The program enables states to provide low interest capital loans and technical assistance to drinking water systems to finance infrastructure improvements. The program is currently administered jointly by Department of Health (DOH), Department of Commerce (COM), and the Public Works Board; however, DOH is under a formal agreement with the Environmental Protection Agency (EPA) called “primacy,” which means DOH is ultimately responsible for implementing the Safe Drinking Water Act in Washington State.

The coordination currently required to jointly administer the program under a multiple-agency management structure has been challenging since the DWSRF program’s inception in Washington State in 1996. Administration of the program has become more complex in recent years due to new federal requirements and increased scrutiny. In addition, several issues and risks were identified during recent discussions with key stakeholders. Audit findings directly related to DWSRF were identified in 2011, 2012 and 2013. The State Auditor, EPA and DOH’s own independent auditor have identified concerns related to grant and loan administration, including sub-recipient monitoring, accounting issues, and meeting federal reporting requirements. The current multi-agency structure creates confusion for loan recipients and agency staff because there are multiple points of contacts at the various agencies. Simplifying administration of this program and redirecting agency resources will provide a framework to effectively resolve these findings.

Department of Health is requesting authority to consolidate the DWSRF program into a single agency administered program. This requires DWSRF contract and financial administration activities currently being performed by COM be transitioned over to DOH. The transition will take place over the 2015-17 biennium, allowing time to build the management structure necessary to ensure a successful transition. By December 31, 2015, DOH and COM will develop a memorandum of understanding to transfer financial administration of the program. The Department of Commerce's 4.8 existing FTE and associated costs, currently funded through a DOH inter-agency agreement with COM, will be gradually reduced during the transition and 4.5 new FTE will be requested by DOH for financial management, project management, and oversight. Consolidating the DWSRF program into a single agency will reduce administrative expenses, including agency indirect and interagency agreements by an estimated $862,000 per biennium. The federal savings will be reallocated from the operating budget to the capital budget to fund additional drinking water infrastructure projects critical to long-term health and economic vitality of Washington's communities.

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Program Contact: Office of Drinking Water, Joseph Crossland, (360) 236-3166

Narrative Justification and Impact Statement:

What specific performance outcomes does the agency expect?

Consolidating DWSRF administrative function aligns program administration, responsibility, and oversight under the single primacy agency, streamlining the program under one agency's process. This will reduce the coordination necessary to implement the program and also mitigate risk and error inherent with a multi-agency program.

In addition, a single-agency administered program will provide oversight and control over the entire life cycle of a project. DOH technical staff will be more involved in loan administration, enabling the state to offer a higher level of technical, engineering and managerial support to DWSRF loan recipients. These enhancements will improve the state's ability to be responsive to consumers and will improve the usability, efficiency and effectiveness of DWSRF funding, benefiting program customers and Washington citizens overall. From a consumer perspective, a single point of contact will reduce confusion and delays.

<u>Performance Measure Detail</u>

Activity: A003 Drinking Water Protection

Is this Decision Package essential to implement a strategy identified in the agency's strategic plan?

Public water system capital improvements are critical for long-term health and economic vitality of Washington's communities. This proposal is supports:

Goal 1: Protect everyone in Washington from communicable diseases and other health threats.

Goal 5: Ensure core business services are efficient, innovative, and transparent

Does this decision package provide essential support to one of the Governor's Results Washington priorities?

This proposal supports Results Washington:

Goal 2: Prosperous Economy - Supporting improvements in state infrastructure and creates additional family wage jobs throughout the state.

Results Washington goal 5: Efficient, effective & accountable government -Consolidating the DWSRF program is consistent with LEAN principle: to reduce extra steps if they are not absolutely necessary.

What are the other important connections or impacts related to this proposal?

This request supports Executive Order 13-03 requiring "Consideration of Life Cycle and Operating Costs in Public Works Projects" and Executive Order 11-04 "Lean Transformation".

Water system stakeholders have indicated support for the concept of housing the entire program at DOH. In addition, Utility Associations and Drinking Water advisory groups have indicated strong support for the programs that we will be able to create and maintain with the added control and flexibility inherent in managing all aspects of the DWSRF.

What alternatives were explored by the agency and why was this alternative chosen?

DOH evaluated several options including: leaving the program as it is; evaluating and improving the current process; and redesigning the program and housing it entirely at DOH.

Leaving the program "as-is" would be the result of not funding this proposal. This alternative does not address current issues resulting from a multi-agency management structure such as communication problems, accounting difficulties, and audit findings. DOH also explored the option of improving the jointly administered program. The major disadvantage of this alternative is that it would not address the inefficiencies inherent in this multiple-agency arrangement.

The DOH's evaluation identified a single-agency model as the best alternative. This is the same approach being used by most states and Washington's own Clean Water program. A consolidated program brings program administration efficiencies, more effective technical assistance and project oversight, and increased compliance with state and federal requirements. Agencies taking a holistic operational approach to their SRF programs can effectively focus staff and financial resources on meeting programmatic and agency policy goals, while maintaining the agility to meet stakeholder needs to maximize the benefits of the program.

What are the consequences of adopting or not adopting this package?

Not adopting this proposal would result in continued communication problems, duplication of effort, accounting challenges between two agencies and continued customer confusion. Quality improvements would not be realized, resulting in deficient project oversight and continued programmatic reporting challenges related to financial management of the program. Administrative efficiencies resulting in cost savings would not be realized, meaning the savings could not be used for drinking water infrastructure projects.

What is the relationship, if any, to the state capital budget?

Drinking Water State Revolving Fund infrastructure loan expenditure authority is appropriated in the capital budget. These appropriations will be shifted from COM to DOH in the 2017-19 biennium.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

The proposal would require amendments to RCW 70.119A.170 and WAC Chapter 246-296 solely for the purpose of transferring the administrative responsibilities from COM and the Public Works Board to the DOH.

Expenditure and revenue calculations and assumptions

Revenue:

Federal revenue of $289,000 will be received to cover additional costs shown in this (DP, Fiscal Note). Also, beginning in fiscal year (FY) 2017, the department will initiate all new loan agreements for the program, thus collecting a 1 percent loan fee associated with those loans into fund 05R-1. Beginning in the 2017-19 budget the department will be receiving all loan repayments and interest, in addition to annual loan fees. The assumptions for those amounts are based on the DWSRF predictive cash flow model.

Expenditures:

DOH currently funds COM's 4.8 existing FTE and associated costs through an inter-agency agreement (IAA). In FY 2017, this inter-agency agreement of $622,000 will begin a gradual reduction, and be discontinued entirely by FY 2019. Transitioning workload and staffing costs to DOH will begin in FY 2016.

In FY 2016, DOH will require 1.0 FTE Environmental Specialist 3 (ES) to evaluate grant and loan applications, inspect projects in the field, and collaborate with funding recipients; and 0.5 Health Services Consultant 2 (HSC) to assist with loan contract administration. In FY 2017, DOH will require 2.0 FTE ES3, 0.5 HSC2, and 0.5 FTE Information Technology Specialist 3 for integration of the Loans and Grants Tracking System.

In addition, estimated expenditures include 0.3 FTE in FY 2016 and 0.6 FTE in FY 2017 to assist with increased division and agency workload, as well as $50,000 in FY 2016 and $25,000 in FY 2017 for a subsidized contract with the Loans and Grants Tracking System vendor to provide training, installation support, and operation and maintenance costs.

(FY 2016 – 1.8 FTE, $205,000 and FY 2017 3.6 FTE, $84,000)

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?
Costs in FY 2016 and 2017 are one time, FTE and functions are ongoing. DWSRF program consolidation will be phased in over multiple biennia. A summary of ongoing savings and expenditures is included in Appendix A.

For federal grants: Does this request require a maintenance of effort or state match?

State match for DWSRF is already provided for in existing capital and operating budget appropriations. No additional appropriation is necessary to meet federal match requirements.

For all other funding: Does this request fulfill a federal grant's maintenance of effort or match requirement?

This request is associated with capital budget requests for DWSRF appropriations, fulfilling the requirement to match capital infrastructure project funds. Match funding for the administrative portion of the program is already provided for in the current DOH operating budget.

Object Detail			**FY 2016**	**FY 2017**	**Total**
	A	Salaries and Wages	96,000	199,000	295,000
	B	Employee Benefits	29,000	60,000	89,000
	C	Personal Service Contracts	50,000	25,000	75,000
	E	Goods and Services	19,000	(50,000)	(31,000)
	G	Travel	3,000	6,000	9,000
	J	Capital Outlays	5,000	7,000	12,000
	S	Inter-Agency Reimbursement		(169,000)	(169,000)
	T	Intra-Agency Reimbursements	3,000	6,000	9,000
	Total Objects		**205,000**	**84,000**	**289,000**