

*Reclaimed Water Use
Long-Term Funding Subtask Force
Department of Ecology, Lacey
October 10, 2007
9:00 a.m. – 3:00 p.m.*

Attendees

Lisa Dennis-Perez, LOTT Alliance
Hal Schlomann, WA Association Water & Sewer Districts
Tom Lienesch, King County
Mike Dexel, Department of Health
John Kounts, WA PUD Association
Lang Marsh, Environmental Law Institute
Bruce Rawls, Spokane
Gary Chandler, Association of Washington Business

Ecology

Steve Carley, Subtask Force Chair
Dan Filip, Subtask Force Lead
Resources to Committee:

- Kathy Cupps
- Jim McCauley
- Kathleen Emmett
- Alissa Ferrell

Facilitator

Angie Thomson, Envirolssues

Guests

Bruce Whittle, USDA Rural Development
Janice Roderick, USDA Rural Development
Nona Snell, Legislative Staff - House Capital Budget
JoAnne Gordon, Department of Revenue

Introduction and Update on Report Timeline:

The draft report is scheduled for OFM review November 14-27. The internal Ecology review process allows the subtask force a short review and comment period for the draft chapter. The report will be distributed on October 19, 2007 and responses are due October 24, 2007. The final report is due to Legislature by December 31, 2007.

***USDA Rural Development and the Community Development Block Grants (CDBG):
Janice Roderick and Bruce Whittle (PowerPoint and other handouts)***

The USDA Rural Development (RD) is a federal partner that funds water and waste disposal infrastructure projects through grants or loans.

Key points:

- Population limits-- rural communities no larger than 10, 000.
- Projects modest in size, design, and cost.

- Current interest rate is 4.5%.
- Loan criteria are based upon the community's ability for repayment and O&M costs.
- Program has criteria for community affordability.
- The passing of the Farm Bill will eliminate grants and lower loan interest rates.
- \$1M grant = \$7M loan.
- RW projects under RD would have to obtain 80-90% guaranteed loan coverage (from banks) to account for higher cost of project.
- Current reclaimed water project under RD--Battle Ground \$35M Phase I and \$15M Phase II.
- Up to a 40-year loan with understanding that facility will be operated for those years.

Reclaimed Water projects tend to prove difficult to fund due to their large size. Combining funding sources between Ecology, Public Works Board (PWB), and others is necessary. RD and PWB currently work together to fund projects. Partnerships are needed to help small communities that don't have the resources.

CDBG provides \$8 million appropriated to community facilities including libraries, fire stations, and others. Eligibility is based on providing the maximum amount to benefit low income families in the community. They fund projects that have the greatest impact on those communities.

Key points:

- Maximum grant amount is \$1M.
- After six months, unused monies (25%) go into a national pool.
- \$1M grant imposes only \$4 on the user rate (Winlock example).
- Receive applications from both public and private, if non-profit, with the same criteria.

The group suggested to make sure the Infrastructure Study committee is aware of all funding programs. Provide information to them about what's going on with RD and partnerships with other programs. Nona Snell attended this meeting as a representative of that study committee.

Revised Needs Data:

Jim McCauley (spreadsheet handout)

Jim presented the revised data from the previous meeting. It provides a conservative look at funding the needs for reclaimed water based on current information. It also projects future needs. Projects in the feasibility and design phase as well as operational facilities are included.

Key points:

- Estimated cost for RW is 20% of the wastewater project cost.
- Satellite facility for a reclaimed water project is 100% project cost.
- Data accounts for estimated amounts of restoration, storage and distribution.
- Includes the recently submitted Capital Budget grant applicants (23 in total).
- Feasibility costs for some projects do not include construction costs.
- The group determined the actual needs across the state will be much higher.

The group discussed how to define a reclaimed water project. Would TMDL required projects be called reclaimed water? There must be a reclaimed water purpose (i.e. beneficial uses to the community) for production to be considered reclaimed water.

Overview of FY 2008 Reclaimed Water Grant Applications:

Dan Filip (color matrix handout)

Dan presented the applicants for Capital Budget Puget Sound grant money (\$5.4M). Applications were due on September 28, 2007. The 23 applicants are currently being reviewed.

- Total amount of grant requests-17.5M.
- Total project costs of applicants-99.8M.
- Some projects are wastewater treatment with reclaimed water component, upgrade (example of Blaine and Arlington).
- Guidelines require an engineering design ready and approved by Ecology.
- Readiness to proceed is an evaluation criterion.
- Complexity of projects requires future projected funding needs. Monies may not be spent as quickly as desired.

The group discussed how this was going to be included in the report to Legislature. The recommendations from this group need to be principles focused on reclaimed water projects/activities. How do we address funding these projects in relationship to the need that is out there? The group determined that they need to come up with a number to recommend.

Key points for a recommended amount of funding needed:

- Account for strategic elements to project the right amount without being too high and create an increased interest for applications.
- Be large enough to express the need for a new revenue source.
- Include costs of wastewater treatment facilities.
- Based on revised needs data (est. \$30M), \$50 M will account for increase in need.
- \$50M is a good starting point that can be re-evaluated each year.
- Account for biennial appropriation timeframes and future need.
- Stages of projects based on current data.

Overview and Discussion of Revenue Options:

JoAnne Gordon, Department of Revenue (handout)

JoAnne reported on tax based information gathered for possible reclaimed water funding. Estimates of revenue from product taxes were based on the wholesale value of the product and are dependant on the tax rate incurred. Liquid products were calculated per ounce. These estimates are rudimentary and must be re-evaluated based on final rate after legislation is passed.

Reported revenue options on as suggested from previous meeting (August 8, 2007):

- **Bottled water:** Would generate about \$0.02 per 20oz. depending on rate.
- **Carbonated beverages:** 2 liter soda=\$0.04 tax
- **Beer:** Currently taxed through Liquor Control Board.
- **Toilet and tissue paper:** Dependant on rate and would not be significant source.
- **Detergents:** Dependant on rate and would not be significant source
- **Over-the-counter drugs:** Dependant on rate and would not be significant source.
- **Prescription drugs:** Dependant on rate and would not be significant source.
- **Public Utility Tax (PUT)**
 - *Sewerage collection increase:* Increase of tax rates not significant.
 - *Dedicate portion of current percentage of collection tax to reclaimed water:* Current \$8.6M collected; 60% dedicated to public works assistance account (Public Works Trust Fund-PWTF) and 40% goes into general fund. \$3.2M if 40% allocated to reclaimed water from general fund.
 - *Water distribution increase:* Increase of tax rates not significant.
 - *Dedicate portion of current percentage of distribution tax to reclaimed water:* Current \$36.5M collected; 20% to PWTF and 80% to general fund. It is possible to ask Legislature to appropriate general funds for reclaimed water.
- **Business and Occupation (B&O) Tax**
 - *Construction of reclaimed water facilities similar to public roads:* Tax is incurred on materials not labor. Does not provide revenue for reclaimed water.
 - *Divert retail sales and use tax paid on property and/or retailing and service B&O taxes to dedicated fund for construction of reclaimed water facilities.* Not a stable form of revenue. This process also needs to be administratively simple.

Revenue options eliminated from previous suggestion:

- Additional sales tax on specific products: Not in compliance with Streamlined Sales and Use Tax Agreement
- Tribal casino taxes: State law preempts from imposing taxes.
- Income tax: Violates Constitutional Article VII.
- Motor vehicle fuel and special fuel taxes: Feasible for highway purposes only.
- Property tax on unused purple pipe: Subject to property tax as real or personal property, if not owned by a public agency. Involves questionable constitutional rights.
- Tax on golfing round fees: Would be counter-productive if courses are to be consumers of reclaimed water.
- Distributor or wholesaler taxes on golf balls or other equipment: Would be counter-productive if courses are to be consumers of reclaimed water.

Key discussion points:

- If tax collection goes over the amount appropriated by Legislature, the extra money could go into a dedicated account and increase the appropriation for the next biennium. The group would like to get a dedicated reclaimed water account from Legislature.
- The group determined that utilizing diverted taxes (PUT generated from general fund) for reclaimed water is much more feasible than creating a new tax. Essentially, put the money back to what it was originally for in the case of water distribution or sewage collection.
- Current statutes say that revenues derived from reclaimed water need to go back to treatment or distribution to offset the cost.
- PUT increase might be feasible, but there may be Legislative barriers.
- Bottled water tax is feasible; it spreads the base of revenue beyond wastewater.
- Taxes on products such as toilet paper, detergents, and pharmaceuticals (issues with AARP) are not the kind of revenue the group is looking for.
- There isn't enough of a funding source for the initial wastewater treatment facility (WWTF). Fix the WWTF funding problem first and then look at reclaimed water. Address a stable funding source for the WWTF.
- Various incentives were discussed: Subsidies or grants to lower costs, sales tax exemption, project exemption-state and federal, private property tax exemption, reduce or eliminate multiple taxes, and create demand through financial incentive.
- Current funding sources for reclaimed water do not provide enough money.
- Generating a concept of new revenues is difficult, especially in an election year. What existing funding sources can we get back?
- Set standards for reclaimed water and ensure that money recipients are following the steps.

Funding Framework:

Steve Carley, Dan Filip, David Dunn (PowerPoint and handouts)

Questions presented to the group to provide a framework of the funding program that will be recommended to the Legislature.

Questions:

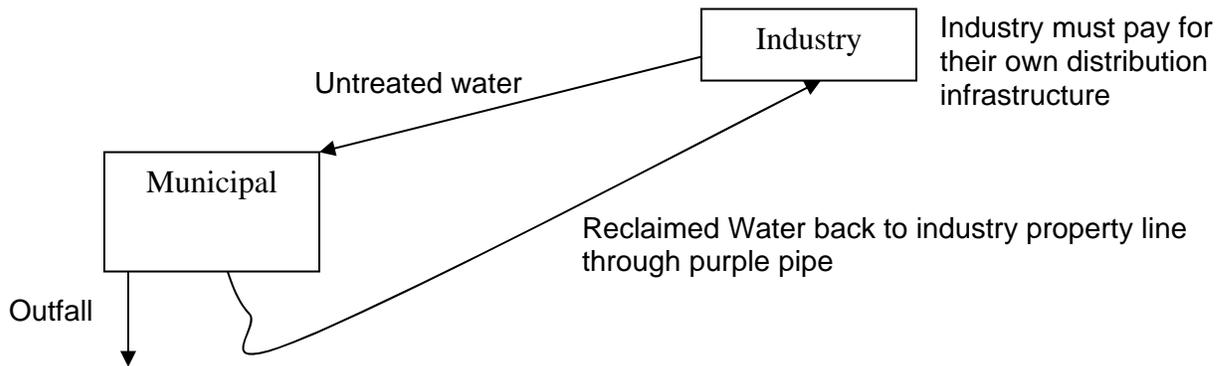
- A. Grant and loan program is already determined, but what percentage is grant/loan?
Grants vs. loans
 - "After the plant" elements are eligible for grants.
 - Use grants for feasibility studies?
- B. Fundable projects:
 1. Municipal/Residential? Yes.

- a) Why split money and give to another entity (CERB) instead of them coming to Ecology for the funds? Administration costs will be removed in this case.
- 2. Commercial/Industrial? Yes, with beneficial use (dependant on ranking).
 - a) Is it treatment only or re-use of reclaimed water? Must be “after the plant.”
 - b) Can we recommend tax incentive for industrial if they do RW?
 - c) Take the treated water to the property line.
 - d) When building with revenue bonds and the “revenue stream” is lost, you have a problem. The flow into the treatment plant will not be lost, which helps with the revenue bonds.

Supply reclaimed water to any entity within user area.

Beneficial use and ranking is on this list.

Private utility and private entity are not eligible.



- 3. Public Institutions? No, they should be funded by Legislature with capital funds.
 - a) There may be universities, prisons that need money. These public entities will go to capital fund to get money and we will need to emphasize this in report.
 - b) Public institutions have to go through the capital budget for funding.
 - c) Highlight in report: If state agencies are allowed to dip into new fund, it drains that account for local communities.

C. Eligible Applicant/Recipients

- 1. Local Governments? Yes
- 2. Tribal Governments?
- 3. Private utilities? Reclaimed Water Act amended in 2003 (?) to include private utilities (example: homeowners associations). This information will need to be verified and check if even possible in legislation.
- 4. Private entities? Large fruit processors on the eastern side of the state?
- 5. Public agencies for the benefit of private entities (must have public benefit)? (example: port district)

Combine 3 & 4 with 5

D. Funding Provisions

1. Eligibility of entire project vs. reclamation processes?

- a) According to legislative bill, need to address what has been required (Sec. 10, 2, a).
- b) Define some percentage of a plant that is eligible for funding.
- c) TMDLs should be funded through existing funding programs.
- d) Make this a program for reclaimed water, not just a focus for small and low-income communities.
- e) Need to define what is the reclamation part? (Sec. 10, 2, a)

Do we fund the plant?

If yes, only with loans up to 25% of the project cost.

Senate Bill 6117 infers that only part of the plant should be eligible – “additional water reclamation components to treat wastewater effluent to reclaimed water standards.”

Provide funding if part of the project is to recharge groundwater. Don't fund projects that are not going to use reclaimed water.

Project needs to have a reclamation process ready to go and have documented intent of implementation for beneficial use.

Projected intent will not be acceptable. Beneficial use must be determined from the beginning.

If plant is being installed for specific reclamation purpose, it should be funded.

Fund a scalping plant that is done in conjunction with actual reuse process implementation.

Actual reclaimed water, water re-use component ready to go.

Priority to projects with reclaimed water components in addition to treatment and are ready to proceed.

Use funding source in conjunction with other, existing funding sources.

2. Commercial/industrial, institutions, and any limits?
3. Existing needs only, 20-year growth or more? 20-year growth, if linked to OFM forecast. Treatment facilities or distribution or both?
4. Percentage of grants vs. loans? How much allocated for grants or for loans? Grants for additional reclaimed water components and loans for reclaimed water treatment facility.
5. Who is awarded grants vs. loans? Legislation states high priority areas.
6. How much should match provision be? (PWTF requires match for loans) Legislation states maximum percentage or maximum amount. Ecology will come up with proposal of match amount and bring back to subtask force.
7. Funding ceiling/project or recipient (Ecology will determine).

- a) Percentage of yearly appropriation?
 - b) No limit? There should be a limit.
 - 8. Reuse Infrastructure – To what point does it go?
 - a) Distribution lines, but to what point? Up to property line? On private property? Storage? Etc.?
 - 9. Purchase of or compensation for the impairment of water rights? Might get addressed in criteria and readiness to proceed.
- E. Grant Program “high-priority” areas (Sec. 10, 2, d) (Ecology will determine).
 - 1. Define high-priority area (not necessarily geographic).
 - a) Water-short area?
 - b) Pollutant discharge?
 - c) Aquifer recharge?
 - d) Endangered species?
 - e) Financial hardship of community? Prioritize by public benefit, rather than income.
 - f) TMDLs?
 - g) Watershed planning?
 - 2. What are the grant provisions?
- F. Eligible Projects? (Ecology will determine)
 - 1. Feasibility Assessments? Yes.
 - 2. Planning?
 - a) Engineering reports?
 - b) Facilities plans?
 - c) Reclaimed water system plans?
 - 3. Design? Yes.
 - 4. Construction? Yes.
- G. Criteria?
 - 1. Public Benefit – 50%
 - 2. Quantitative goals for measurable outcomes – 20%
 - 3. Mandatory use ordinances or documented intent to execute contracts – 10%
 - 4. Local support – 10%
 - 5. Readiness to proceed (impairment) – 10%
 - a) Could be pass/fail. Set requirements/questions to determine. This will not be a part of the scoring.
 - b) Is the rest of the funding in place?
 - c) Match support already there?

- d) Combination of Y/N and quantified.
- e) Staff trained, etc. required? Example: LOTT had partners set up with the training required to accomplish their reclaimed water facility.

Announcements:

- Draft report will be distributed to subtask force October 19.
- Comments are due to Ecology by October 24.
- Next Infrastructure meeting with Legislature is October 26.
- Next Funding Subtask Force meeting is November 13.

Adjourn: 3:00 pm