

Long Term Funding Sub-Task Force Reclaimed Water September 4, 2007

Attendees

Bruce Rawls – Spokane County
Karla Fowler – LOTT Alliance
Hal Schlomann – WA Water and Sewer District Association
Tom Lienesch – King County
Gary Chandler – Association of Washington Business
Mike Dexel – Department of Health
John Kounts – Washington Public Utility District Association

Ecology

Chair: Steve Carley, Financial Management Section Supervisor
Facilitator: Angie Thomson, EnviroIssues
Note Takers: Shawna Beers and Alissa Ferrell

Resources to the Sub-Task Force:
Kathy Cupps, Reclaimed Water Agency Lead
Lynn Coleman, Water Resources Program

Water Quality Program Staff:
Dan Filip
David Dunn
Jim McCauley
Pat Brommer
Eugene Radcliff

Guests

Joanne Gordon – Department of Revenue
Genevieve Pisarski – Department of Revenue
Lang Marsh – Environmental Law Institute
Kelly Snyder – Public Works Board
David Lenning – Department of Health

Ecology Action Items

- Invite someone from CERB to give brief overview and ask if RW would be a program they would consider.
- Research other states uses and funding sources of Reclaimed Water.
 1. Look for revenue source outside of general funds. Look at the connection between tax and the use. (e.g. Gas = roads).
 2. Who pays and who benefits.
- Invite a representative from the USDA Rural Development (RD) office to present information about this program. (USDA funding may add some extra money for projects.)

- Send attendees a link to the JLARC web-page.
- Provide information on completed projects (historical) and those that are current in progress. Separate out historical, feasibility, plan, design, and construction from project handout.
- Identify items already being taxed; taxing the pollutant or who uses the end product; upstream vs. downstream.
- Survey what is driving the need for a reclaimed water facility (i.e.TMDLs).
- Ask Langdon Marsh to provide us additional information on innovative idea category of his report.
- Have representatives come to give their input on funding RW: USDA Rural Development, CERB, and CDBG for future meetings.
- Ask Joanne about more detailed information. She will look into exempting infrastructure from sales tax revenue, adding sales tax from construction, distributor tax from bottled water, soda, beer, toilet paper, and detergents. Possibly look into B&O (collection systems) tax and taking money back from general fund to reallocate or increase that tax for RW.

Sub-Task Force Action Items

- Review Lang Marsh's handout and ask him what they would like to know more about. Give an executive overview on leveraging SRF. Have Alissa be the point of contact.
- DOH will provide more info for next meeting.
 - Department of Health (DOH) will be doing their part (Section 7) by checking up on the current level of reclaimed water included within water system plans. They plan on having that report drafted by the end of September.
 - Section 030 of 90.46 – This is for DOH to do (are they developing a permit fee for RW?) They will not issue RW permits until they have a way to recover costs.
- LOTT will give a breakdown of total project costs and what comes from where.
- Joanne Gordon will find out how much that increase is and provide a breakdown of where the revenue goes.
 1. Community Economic Revitalization Board (CERB): Loan/grant money for communities to develop infrastructure for revenue development. Mainly loan money with little grant. Get more guidance on the revenue issues (bottled water).
 2. Ask Joanne about more detailed information. She will look into exempting infrastructure from sales tax revenue, adding sales tax from construction, distributor tax from bottled water, soda, beer, toilet paper, and detergents. Possibly look into B&O (collection systems) tax and taking money back from general fund to reallocate or increase that tax for RW.
- Fill-out the last column of the matrix (grant vs. loan, comments).

Task- Introductions, Meeting Goals, and Objectives

Steve opened the meeting and asked the group member introduce themselves. Steve then provided an overview of the agenda and gave opening remarks. Steve also asked for any changes. The only change was to move the order of items on the agenda.

Task- Review Senate Bill 6117, Section 10

Steve went over Section 10 of Senate Bill 6117 (see handout). He noted that Kathy Cupps and Melissa McEachron presented this information to the Reclaimed Water Use Rule Advisory Committee.

Section 10 requires that Ecology form a Sub-task Force to look at long-term funding issues including:

The group had several questions or comments on Task #1 for this Sub-Task Force:

- Funding sources out there such as USDA. USDA Rural development – not a lot of money out there. Modest for needs of small communities.
- How do RW projects stack up with others? How are they rated?

Steve explained that in looking at other sources that could fund projects. Some will put a limit if it's not "modest", they will not fund entire project but stress a certain amount. If the project is required (NPDES), they will fund. We have the same with funding sources now; fulfilling requirements. Funds are already stretched to fund requirements.

- New funding source would be in combination with other sources to cover what is not "required."
- Would Clean Water pay only for what is required?

We would need to capture that in the report to Legislature. Here are the funding options but we have something greater.

- Have a USDA Rural Development (RD) representative come and give briefing on their programs at a future meeting. Their funding may add some extra money for projects.
- Have the RD Representative talk about where the line is drawn between the element of re-use meeting requirement and what is that "extra amount" to make it a full-fledged program that would not be funded under RD rules.
- Purple pipe is fairly new. It would be interesting to hear what RD has to say about the reverse system.
- What about the JLARC report?

Steve explained that the JLARC report outlines many capital funding and infrastructure programs, including grants and loans. The majority of loans are loans unless there is a hardship. Legislature gives priorities for

projects. (see handouts) The Legislature also authorized a new grant program for Reclaimed Water Use in Puget Sound.

- Send a link to the JLARC Report. (Alissa will send this out).

TASK #2

Kathy Cupps described how this task ended up in the Long-term Funding committee's hands. There were originally 20 different sections of 6117. Looking at research and water re-use was removed from the bill. Requirements were added back in and ended up in the funding taskforce. Legislature doesn't necessarily care where it's addressed as long as it is. We should address funding of programs, working in parallel because a lot of this is staff research and will not be available in the time frame we have to report.

- Department of Health (DOH) will be doing their part (Section 7) by checking up on the current level of reclaimed water included within water system plans. They plan on having that report drafted by the end of September.
- SEA program will be looking at watershed planning.
- WQ looking at existing conservation and water reuse plans in general.

Questions and Comments on Task #2 under Section 10:

- Section 7 – Where is the money going and what will it be used for? Raising fees?
Currently, a NPDES permit is charged a fee. If you have RW facility in addition to a wastewater treatment facility (WWTF), it may have a new permit fee.
- Section 030 of 90.46 – This is for DOH to do (are they developing a permit fee for RW?) They will not issue RW permits until they have a way to recover costs.
- Several members of the group said they would like to have a cost-effective and efficiently running program.

DOH will provide more information on their efforts on reporting item for next meeting.

Task – What are the Needs? Statewide overview: current and future reclamation and reuse projects. (David Dunn and Jim McCauley)

David Dunn, Senior Engineer, Financial Management Section

Dave Dunn presented information on current funding options (Power Point: What is the reclaimed water need beyond waste water?)

David provided a historic overview of funding options:

- Every four years EPA does clean water needs assessment.
- Legislature has earmarked money for specific communities that have need for RW.

- Does not include bonded and Public Wastewater Treatment Facility (PWTF) money. This strictly represents people coming to Ecology for grants and loans. This does not amount to the entire project totals but only the portion that Ecology funded.
- Not unusual for funding for a project to come from multiple sources.
We can go back in time and get more totals.

Questions and Comments on David's part of the presentation:

- Is there any way to capture what doesn't get funded through CCWF or SRF?
David explained that the majority is funded by bonds and user rates. CCWF total is higher and is used primarily for small communities with limited resources for funds and that are in remote areas.
- LOTT has comprehensive project cost information. Will LOTT give a breakdown of total project costs and how the newest projects were funded?
- The Legislature wants to take tour of a funded-project (LOTT).
- A typical loan is issued for how long? Dave responded that SRF are 20-year loans. King County is doing 40-year bonds. More costs going into interest. PWTF is 20-years.

Jim McCauley, Senior Engineer, Program Development Services Section

Jim McCauley continued on the shared PowerPoint and focusing on current needs. (see handout and project matrix.)

Questions and Comments on Jim's part of the presentation:

Q. How do you separate Wastewater Treatment Facility (WWTF) and Reclaimed Water components of a project?

A. Not done yet. Sequim does discharge a portion to Sound.

- We still have a lot of treatment that is reclaimable water but is not utilized that way.

Q. How would you divide this over a period of time?

A. Some may be 20 years out, varies a lot.

Completed projects (historical) and those that are current in progress. Separate out historical, feasibility, plan, design, and construction from project handout.

There's more need.

Q: How do you decide if this is reclaimed water or not?

A. It is determined by processes. What is that pump or membrane essentially used for (from an engineer's standpoint)?

Q. How are you going to know if that pump should be paid for with RW fund?

A. It depends on the ultimate end use of the water. If it is in the WWTF and pumping sewage that will become reused water, it's eligible for payment under RW reuse funding.

- Reclaimed water requires different permits than discharge permits.
- RW even if it is highly treated wastewater cannot be legally used for beneficial purposes without a RW permit. *It cannot carry any pathogens and must be suitable for its use at all times.*
- Comment: Class A RW is not potable.
- The intent for RW permits is to always have that WQ standard (no pathogens, specific levels of turbidity, etc.), contingency plans, and an overall redundant and reliable system to keep the water safe for public health. It must also provide a beneficial use. If water is cloudy or not meeting standard, it will either be redirected or cycle through system again.

Q. Do you fund that extra mile to keep treated water and facilities at that standard or do you fund an entire RW project. Scalping plan?

- There is a distinction between a facility going through the process and discharging to marine waters vs. a reclaimed water reuse facility.
- RW water permits are under 90.46 RW permit.
- Spokane produces Class A water but does not have a customer for RW and will pursue a RW permit when they do get a customer.

Q. Should a project be funded if they don't have customers for the RW?

Q. How much of the year do you need to reclaim the water? How would you rate that amount of use into the ranking of funding criteria?

- Toilet flushing is a year-round need. RW could be incorporated for that use.
- In times of low need for RW, the water could be used for groundwater recharge rather than discharge to surface waters. This is considered a beneficial use.

Q. What are the criteria to allow discharge to animal crops?

A. A state waste permit for land when the actual land is a part of your treatment process. The "farm" is part of your treatment process. RW must meet standard before discharging.

BREAK

Task – Reclaimed Water Programs & Fund Sources in Other States:

Langdon Marsh, Environmental Law Institute

Langdon presented preliminary information to the group on his findings. (see Handouts Reclaimed Water in Washington—Finance and Incentives and PowerPoint slides)

- Leveraging SRF: Not using just loans from SRF but borrowing funds for zero interest as security, essentially grants.

Questions and Comments on Lang's presentation:

- Are you aware of any tax or fee put directly on wastewater/water customers that is in use today? Do you know of states where targeted tax will go to reclaimed water? Lang thought no.
- What kind of return would be offered on state/municipal pension funds? How would that work? Lang explained that investors could choose to set aside a portion of pension funds and then invest in projects that meet criteria. Pension fund is paid back by revenue of project infrastructure; new source of loan money.
- It doesn't sound like low-interest money, would it? May not be, depends on the set up, probably under market value.

Lang also presented information on incentives in other states, which include:

- Use of mandates.
- A variety of different tools are needed for RW funding.
- Promote RW – exempt from state sales tax (page 4 of handout).
- Finance most efficient way to develop Reclaimed Water.

Questions and Comments from the group on incentives (Handouts F,G, and H):

- Fixed income and paying utilities is detrimental. Increased rates are potential for paying for these. Look at O&M of a facility. We need to look more into the O&M costs over the long-run.
- RW vs. sustainable water: Sustainable water would be better off in the long run, we must show evidence of holistic planning to meet people's water needs. Reclaimed Water projects need to compete for efficiency projects. Need credible analyses and not just throw money at reclaimed water projects.
- We need to look at RW within an overall context of sustainability.
- Rates are going up, tax increase because it is based on gross. The bulk of money is going to general fund. Could money be redirected from general fund or dedicate increase.
- Utility tax=water distribution, sewage collection, sewage treatment.
- Currently, there is a study on how we fund infrastructure; looking at a broader spectrum including economic development, community growth, etc. rather than just public safety.
- Sales tax is going to general fund on projects. Divert sales tax to funding or take sales tax off for RW. Like luxury tax on bottled water.

LUNCH

Task - Potential Funding Sources

Joanne Gordon, Department of Revenue

Joanne gave an overview of the Potential Funding Sources and some of the restrictions.

- Sales & use tax agreement – Makes sales tax administration and collection more consistent across the nation. One of their requirements is that your rates are generally the same. Trying to pose a greater tax on bottled water would not be in compliance with sales and use tax agreement.
- Bottled water is included in food/food ingredient. Not possible to tax from this point of view.
- Indian tribe casinos: Not allowed to impose tax on Indian reservation/run businesses.
- It is possible to impose a tax at the distributor/manufacturer level. Bottled water is on the top of the list. Impose tax on distributor of bottled water.
- Targets of \$25, \$50, \$75, \$100 million given. Most of these are in the lower range.
- Toilet and tissue paper: DOR is working on the estimates for possible revenue from a tax on this source.
- L.I.F.T.=Local Infrastructure Financing Tool
 - Q. What about a water degradation tax? Watercrafts and automobiles discharge to the water. Impose this tax on owners through an increase of registration costs.
 - A. Currently, \$3 is recovered from watercraft trailer registration to control milfoil. There are approximately 250,000 registered boats in WA. Depending on what kind of fee to attach to that, it could still only raise \$250,000. It is probably not going to be a significant source of funding.
 - Q. What about commercial vessels coming in?
 - A. There is a minimal number of commercial vessels which would not create a significant amount of funding.
- Pollution tax: Look upstream and see who is benefiting and contributing to the problem. Who is benefiting upstream and who benefits downstream.
- Amounts of sales tax (earmarked) can go up or down depending on the legislature and Governor. Is sales tax going into general fund?
- Money is coming from bond sales.
- Bottled Water: Amount on presentation could be \$.02 per ounce and create revenue of \$50M.
- Comment: If I know where money is going, not just to the pot of general fund, it's easier to back the ideas.

- This comes down to the report that will be generated for the legislature. A blend is the right approach, not funding the whole thing on one mechanism.
- Use sales tax more as an incentive rather than revenue.
- A precedent is already set on the solid waste side. Just carry it over to RW side.
- Bottled water tax is a very difficult one due to how it moves down path to tax on water. It's bottled water, but it makes it easier to move it to water tax.
- On a positive note for bottled water taxes, people are widely using bottle water and not using potable water sources.

Task - Public Works Trust Fund Program

Kelly Snyder, Public Works Board

Kelly gave an overview of the Public Works Trust Fund Program and its eligibility requirements.

- Trading & Economic Division.
- Drinking water SRF.
- PWTF – 85% for construction \$278M for this biennium.
- 45% of revenue is repayment.
- 4.6% of state excise real estate tax.
- Utility tax and solid waste tax.
- Funds infrastructure including sewer, wastewater, roads, and bridges. Majority of funding has changed. Now it is primarily wastewater projects.
- 63% of \$278M is wastewater projects. Approx. \$140M in wastewater to Puget Sound, most are treatment plants.
- City of Blaine is a large project that will become reclaimed water.
- Generally, treatment plants come to Public Works Board (PWB) and come to the program under a water project. Why is RW funding an issue for PWTF? Kelly explained that funding is NOT allowed under statute to fund irrigation infrastructure.
- Over \$500M in requests.
- Funded about \$2Billion in WA state projects.
- Rating and ranking criteria from legislature is focused on health and safety. That's why wastewater is high on the list.
- On hearing about getting more funding, cities counties and others need more money and more technical assistance. Governor's office wants to find efficiencies in programs rather than more revenue sources.
- Local government is not utilizing local bonding capacity primarily; instead they are coming to the state.

- Local jurisdictions have utility taxes (not counties or special districts); a possible funding source for projects. However, increased rates are not likely possible because the ratepayers are not able to make these payments.
- Still need to get upfront capital costs. Where do these come from?
- PWB is stuck with the irrigation issue and working on that. They have a limitation on funding irrigation systems for districts or farming.
- Drinking Water SRF – PWB has 20% match. Focus is often source, supply, then distribution. Focus is on lead, copper, arsenic for clean up of the systems.
- Fund private, small communities such as homeowners associations, usually needing grants.
- Focus on stretching use of potable water. There have been concerns from other state officials on how these needs are going to get funded.
- PWB may only be able to fund some portions of the funding for projects.

Q. Where are all of the funding capacities for these projects?

- Larger municipalities are helping to offset paying interest rates for the smaller ones.

Q. Should we be asking if they could pay for this project on your own when rating the funding criteria?

- Interface between PWB and infrastructure programs: What are the differences?
- We are not distinguishing between how much is existing or growth. We are primarily looking at quality of water, less concerned about the measure. Have to be in compliance with growth management. How much of the project is growth related?
- Cost-effectiveness of a project is a key consideration rather than figuring out if it can be paid for. Need to provide cost-effective means for funding projects (loans below market rate and effectively providing partial grant).
- Challenge: How long will Congress continue with SRF? Demands are going up.
- PWB loan offer?

Q. Are we seeing requests for RW projects because water supply source is low? Kelly indicated that the numbers are not high, but there are communities finding other reasons to go the RW.

- Trouble is we don't know what the trade off is for RW. Don't know benefits they will get.
- TMDL-driven reclaimed water projects. Initial drive for RW varies. It's usually not RW as the drive but other reasons.
- Self-financing: There is a lot of local bonding capacity. What can local government do to use their local bonding capacity? The state is reaching max of bond, but local governments can use their bonding capacity.
- We're seeing more and more interest for smaller, decentralized RW facilities.

- Grants for public health and safety make sense. But grants given just because a community wants to do a certain project doesn't make sense. Answer the question: who benefits?
- Create a fund with a specific target and not just another source of funding.
- Governor has been clear that creating a whole new funding program would not be beneficial based on ranking criteria. It would be more ideal to utilize funds set aside for another program and focus on expansion and retrofit.

Task - Discuss existing and proposed eligibility activities

David Dunn, Senior Engineer, Water Quality Program

David led the group through a discussion of the eligibility activities and funding program.

Ecology (Water Quality Program) has two major funding programs:

- CCWF – Ecology WQ grant fund
- SRF – Ecology WQ Loan fund
- PWB only offers loans.
- In addition, there is also a State Drinking SRF: This fund is targeted specifically on drinking water (arguments can be made that reclaimed water is lessening the demand for potable water and therefore becomes part of this funding program).

Motivations for Reclaimed Water Use:

- Model after Lacey.
- Community wants to “do the right thing.”
- Obtain more water and water rights.
- Project is driven by water quality issues. Discharge doesn't meet the standards.

Group Discussion, Questions and Comments: (Matrix Handout)

- We do not fund for site specific engineering reports, Ecology needs facilities plan in order to fund.
- Wastewater treatment plant: Only wastewater treatment as the goal, may become RW in the future with expansion, but is only WWTF planned.
- Capital Budget is the new \$5.4M for RW funding in Puget Sound only, at this point.
- Look at pilot projects and determine what should be funded and what did we fund. Need policy from this workgroup on what we would fund. Do we fund a golf course?
- Part of our task as this group is to come up with the eligibility components.
- There's a difference between public/private components of the project.
- If there is guarantee of loan repayment by the private landowner, PWB would offer a loan.

- State program funds no growth.
- SRF funds up to 20-year capacity for growth. Can't fund growth under CCWF, due to state law. PWB does fund growth but at a low priority rank if it is growth only.
- When looking at the RW funding source being created, is the funding for existing need only or also for growth?
 - Q. Do we want this money to fund growth or existing needs?
- Land Acquisition – RW is okay for rights of way and easements.
- Need to add a component in the RW matrix. Environmental uses for RW including wetlands, restoration projects, in-stream flows, and fish habitat for broader public benefit should be considered.
- Issue of impairment: Entity wants to purchase water right. Is that cost eligible under this program? Compensation/mitigation for water right impairment.
 - Q. Do you want to fund compensation or mitigation for water right impairment? Or when do you want to fund this?
 - Q. Should we include, in the report to the legislature, Ecology's purchase of water rights?
 - A. Yes – the trust program.
- Other funding programs have their own “agendas.”
- Public Works Board (PWB): infrastructure.
- Community Development Block Grants (CDBG): Disadvantaged communities. They look at actual income of individuals in the community. May or may not be RW. Go block by block to assess income levels.
- United States Department of Agriculture Rural Development (USDA RD): Small, rural communities' infrastructure. Be modest in scope and appropriate for community.
- Water System Acquisition and Rehab Program
- Community Economic Revitalization Board (CERB): Loan/grant money for communities to develop infrastructure for revenue development. Mainly loan money with a little grant.
- Fund private utility? Or is it expandable eligibility on funds given to a local government? Private utilities allowed? Are they eligible?
- Who are the eligible recipients? Private entity? Tribes? Public body? Private utility?
- Private facilities discharging to public entities. SRF will not fund.
- Question is more than WHAT is eligible but also the WHO.
- Is there constitutional language for public utility?
- Eligible use: There are those that can apply and receive the money and those that are the beneficiary of the money. Who is eligible to receive the benefit of the

public money spent? Percentage breakdown for public/private. Applicant eligible but not user.

- There must be some public benefit.

Wrap-Up:

The group was curious how Ecology intended to fulfill the reporting requirement for the project review part of Section 10? Steve introduced Eugene and asked him to give a quick update.

Eugene outlined Ecology's current thinking and options for this reporting piece:

1. Option 1: No action. Do not provide information at this time.
2. Option 2: Collect a population sample/selected survey of water district, watershed plans, etc. and how they identified or could identify water reuse. Write-up the results as part of the report.
3. Option 3: Conduct a Comprehensive survey (probably not meet deadline for this year) and write-up the results.

Eugene noted that the best "bet" given the time-frame is a combination of 2 & 3. Do a "simple" survey this year and report the results. Do a more comprehensive survey for next year, based on the results this year and additional data gathering.

Next Steps:

1. Look further into bottled water tax as a revenue source. Ask Joanne for more detailed information, such as exempting infrastructure from sales tax revenue, adding sales tax from construction, distributor tax from bottled water, soda, beer, toilet paper, and detergents. Also, look into B&O (collection systems) tax and taking money back from general fund to reallocate or increase that tax for RW.
2. Identify items already taxed; a tax on the pollutant or who uses the end product (upstream vs. downstream).
3. Survey on driving factors or need for a reclaimed water facility (i.e. TMDLs).
4. Send out the matrix to get input and fill out last column (grant vs. loan).
5. Have Lang Marsh get more information for innovative ideas. Review his handout and ask him what they would like to know more about. Give an executive overview on leveraging SRF. (Alissa can serve as the point of contact.)
6. Have representatives come to give their input on funding RW: USDA Rural Development, CERB, and CDBG for future meetings.
7. Invite a local entity to discuss RW use plans (Kitsap County).
8. Report draft is due October 19th. Provide answers to proposed questions at the next Oct 10th meeting and incorporate into the report.