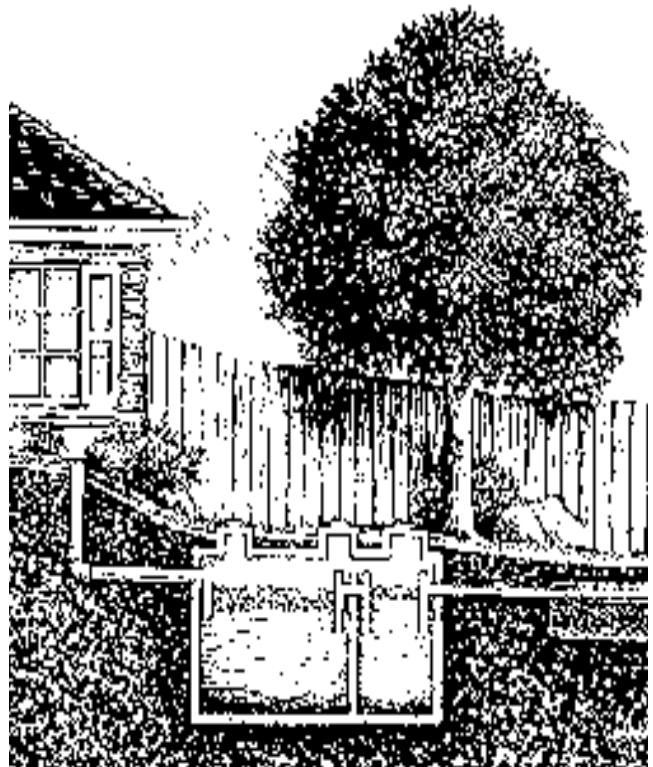





# **Local Government Loan Programs**

*for*  
**On-Site Septic System  
Repair and  
Replacement**

*using the*  
**Washington State  
Water Pollution Control  
Revolving Fund**



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## Funding On-Site Septic System Repairs through the Washington State Water Pollution Control Revolving Fund

Many counties in the state of Washington have used the Washington State Water Pollution Control Revolving Fund (SRF) low-interest loan program to create local loan programs to help residents and small businesses pay for needed repairs and upgrades of faulty on-site septic systems. Most local loan programs are administered by local health jurisdictions who apply for loan funding through the Department of Ecology's Water Quality Financial Assistance Program. The SRF has provided almost \$10 million to repair or replace more than 500 failing septic systems in Washington State.

In counties with local loan programs, residents have more financial options for dealing with failing on-site septic systems. Rather than face enforcement action or the possibility of having to move out of their home or to close shop, residents and small businesses may qualify for a low-interest loan from their local government to help defray the costs to repair their waste water system. Terms are established by local jurisdictions. Individual loan terms range from 3 to 20 years, and interest rates are typically lower than market rates.

### Why the SRF?

#### Identifying Problems

The U.S. Environmental Protection Agency (EPA) estimates that nationwide 10 to 20 percent of on-site septic systems fail each year. Washington State has an estimated 800,000 + on-site septic systems. Many of these on-site systems were installed before state minimum standards were adopted in 1974. This could mean that 80,000 to 160,000 on-site septic systems are releasing inadequately treated sewage and waste water into our surface and ground waters, consequently damaging valuable watershed areas.

#### **FYI**

*The United States Congress established the SRF program as part of the Clean Water Act Amendments of 1987.*

*The Washington State Legislature passed a statute in 1988 (Ch. 90.50A RCW) which created the state's SRF Program.*

Most local health districts who have conducted sanitary surveys reveal that the age of a septic system (over 20 years) is often the most significant contributor to failures. Other common factors include poor soils, obsolete design or construction, and poor operation and maintenance. EPA reports that improperly used or operated septic systems can be a significant source of ground water contamination that can lead to waterborne disease outbreaks and other adverse health effects.<sup>1</sup>

On-site septic system failures pose the same potential health hazards that all other sewage systems pose, because domestic waste water can contain bacteria, viruses, protozoa, and parasites harmful to people. Typhoid fever, gastrointestinal infections, and infectious hepatitis have been linked to sewage spills around the country, including on-site

*Failing on-site septic systems have been identified as one of the sources of contamination leading to shellfish bed closures and downgrades.*

<sup>1</sup> Publication Reference EPA816-F-01-021 [http://efpub.epa.gov/owm/septic/faqs.cfm?program\\_id=70](http://efpub.epa.gov/owm/septic/faqs.cfm?program_id=70)

septic system failures. These failures threaten entire watersheds, affecting ground water, streams, lakes, estuaries, and fauna.

On-site septic system failure threatens Washington's drinking water supply, which primarily comes from ground water. Washington's \$77 + million per year shellfish industry, which anchors the economies of many rural Washington communities, also suffers when on-site systems fail. As of May 2005, the Washington State Department of Health listed 25 commercial shellfish growing areas as threatened with closures, which is up from 22 listed for the previous year. The state Department of Health (DOH) identified on-site septic system failures as a contributing factor in these downgrades.<sup>2</sup>

## Creating Solutions

The Washington Department of Ecology's Water Quality Program administers financial assistance for on-site septic system repairs and upgrades through the SRF. The SRF provides low-interest loans to public entities that have a dedicated source of repayment, such as revenue secured debt or general obligation debt. These entities can be local governments, tribes, and conservation districts. The local government assistance programs provide loans to residents with failing or failed on-site septic systems.

Unlike grants, SRF loans do not require public entities to provide money up front in order to create a local fund for on-site septic system repair and replacement. Because of the low interest rate of most SRF loans provided by Ecology, local assistance programs can cover administrative costs with the interest the local government charges individual borrowers. Interest rates for the individual borrower are typically better than market rates and sometimes zero percent is offered for financially distressed residents, making repairs and upgrades more affordable.

Through April 2005, local jurisdictions have borrowed almost \$10 million in low-interest loans from the SRF. These savings have been passed down to home owners and small commercial enterprises to fund on-site septic system repairs and replacements. As loans are repaid by the local jurisdiction to the SRF, collected principal and interest payments can be used by Ecology to fund future SRF projects. The same is true for the local jurisdiction. As loans are repaid by the home owner or commercial enterprise, principal loan and interest payments can be used to fund future water quality projects at the local level.

### *Loans vs. Grants*

*While grants are often looked to as sources of free money, low-interest loans provide a more cost effective, sustainable solution for implementing water quality projects.*

*Grants generally require the funding applicant to match 25 percent, and sometimes 50 percent, of the grant award. A local body seeking assistance to fund a \$500,000 facility or activity may need to come up with \$125,000 or \$250,000 in matching funds simply to get the project off the ground.*

*Low-interest loans provide money for projects without requiring local bodies to provide matching funds. Low interest rates create affordable re-payment options and allow the costs of a project to be spread over several years.*

*Local loan programs can also be created with SRF awards to create a perpetual source of funds for water quality projects such as septic system repair. SRF awards create sustainable solutions for water quality; as loan principal is repaid to Ecology those funds become available for future SRF awards.*

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<sup>2</sup> From a May 2, 2005, Puget Sound Action Team News Release (05-044) at the following Web address:  
[http://www.psat.wa.gov/News/releases/news05\\_044.htm](http://www.psat.wa.gov/News/releases/news05_044.htm)

## Structured For Sustainability

The SRF is made possible through capitalization grants to the state of Washington from EPA. The Department of Ecology's Water Quality Program administers the SRF and uses the EPA grant, 20 percent matching funds from the state, and principal and interest repayments from previous SRF loan recipients to fund water quality projects during each lending cycle. Any public entity in Washington (including cities, towns, counties, tribes, and conservation districts) may apply for SRF funding.

## Obtaining an SRF Award

### The Application Cycle

Public entities interested in receiving SRF funding for on-site septic system repair and replacement use the *Water Quality Financial Assistance Application*. The SRF, Centennial Clean Water Program, and the federal Section 319 Non-point Source Grant Program share this application process and funding cycle. The innovative, streamlined approach allows the Water Quality Program to ensure that local agencies receive the most appropriate source of funding for their projects.

Applications are usually accepted from September 1 through October 31 of each year. Awards are made based on legislative appropriation made in the following session.

Applications are available at Ecology's annual funding workshops or by contacting Water Quality Program staff at:

Department of Ecology	360-407-6502
Water Quality Program	711 or 1-800-833-6388 (TTY)
Box 47600	
Olympia, WA 98504	

### Evaluation Criteria

Applications are reviewed by Ecology staff and evaluated based on the following merits:

- Specific public health and water quality impairments caused by the threats. 340 points
- How the proposed project will address the water quality problem and measures of success. 340 points
- Local initiatives taken that will make the project a success. 120 points
- State of Washington and federal mandates that the proposed project addresses. 100 points
- Local priority setting process. 100 points

### ***Local Priority Setting Process***

*The local priority setting process allows points for the collaboration efforts of local governments and tribes in the prioritization of projects within their Water Resource Inventory Area (WRIA).*

*Each WRIA will evaluate and rank applications for projects within its boundaries.*

*Please see Ecology's Funding Guidelines for more information on local priority setting.*

Several specific criteria must be met for an SRF loan application to be approved. The public entity applying for the loan must be in compliance with the Growth Management Act (GMA). An exception may be made if there is a pressing public health need or substantial environmental degradation declared by the State Department of Health or Department of Ecology respectively. Complete guidelines and details can be found in the Department of Ecology's funding guidelines available with applications. Ecology staff encourage SRF applicants to be familiar with these limitations and guidelines. Projects not meeting criteria will not be eligible for funding.

#### ***Application Tips***

- *Read and follow the directions and tips on the Water Quality Financial Assistance Application.*
- *Answer questions with concise, accurate detail.*
- *Label answers to clearly correspond with application questions.*
- *Number pages for easy reference.*
- *Take care when photocopying completed application that each page is reproduced clearly and completely.*
- *Assume an active role in the Local Priority Setting Process.*

### **Other Considerations**

Applicants should also consider how they plan to market their individual loan program to residents in need of assistance. In the past, local loan programs have provided information to residents during on-site inspections, as part of the permit issuance process, through brochures and public service announcements, and through the local media. Some programs have also provided information to local septic system contractors, who in turn can inform potential customers that financial assistance is available if needed.

### **SRF Generated Results**

Some counties are already capitalizing on their local loan program with seven rounds of funding from Ecology. In Skagit County the local loan program has already provided over \$3.9 million to residents to fund repairs of aging on-site systems. Island and San Juan Counties, which feature poor soils for septic systems, have had similar success with their local loan programs. Residents of these counties, many of whom are elderly, have no alternative to on-site waste water treatment. Many low-income and fixed-income residents have been able to upgrade their septic systems thanks to local loan programs.

**SRF Award Offer and Local Loans Program Inception  
through Fiscal Year 2005**

<b>Loan Recipient</b>	<b>SRF Award Offer</b>	<b>Program Inception</b>
Skagit County	\$3,902,974	1994
San Juan County	\$1,449,408	1992
Island County	\$ 891,418	1993
Thurston County	\$ 866,710	1992
Bremerton-Kitsap Health	\$ 733,456	1994
Clallam County	\$ 444,186	1992
Mason County	\$ 367,698	1992
Whatcom County	\$ 355,634	1999
Jefferson County	\$ 319,218	2001
King Conservation District	\$ 300,000	1995
Clark Public Utilities	\$ 213,705	2004
Clark County Health	\$ 100,000	2004
Lewis County	\$ 26,759	1996
Southwest WA Health Dist.	\$ 10,955	1994
Pacific County	\$ 2,143	1993
<b>Total</b>	<b>\$9,984,264</b>	

**The Big Picture**

Of course local loan programs are not a complete solution to the problem of polluted waterways. But on-site septic system failure represents a significant source of water quality degradation in Washington, and local loan programs have provided the means to eliminate over 500 faulty on-site septic systems. As loans are repaid, more money becomes available to finance future repairs or replacements.

**Enforcement Tool**

Local health officials who permit and inspect on-site septic systems stress the importance of a local loan program as an enforcement tool. When sewage backs into a home as a result of a failed drain field, the home owner faces expensive repairs and the possibility of having to move out until the repairs are complete. Health officials do not want to respond in the limited role of enforcer; they want to be able to present home owners with many financial and technical options in order to correct the problem at hand and ensure that all residents have a clean and healthy place to live or work.

Home owners often choose to finance on-site system repairs through a home equity loan, sometimes because they want to finance other home improvements at the same time as on-site septic system repairs. While many residents will ultimately not choose to take advantage of a local loan program, health officials agree that the availability of a loan program often signals to home owners that the county is interested in helping people with their septic problems.

## Marketing Local Loan Programs

While a local loan program cannot function if the public is not aware of its presence, traditional attempts to market these programs, such as radio and newspaper advertisements, have met with minimal success. Though many counties now promote education and awareness of on-site septic system care and maintenance, many residents do not consider replacing an on-site system until a failure occurs. Health officials report that most loan program participants initiated their loan as a result of an enforcement action.

Counties with successful programs for septic system repair report that their loan program is part of a comprehensive plan to manage on-site septic systems throughout the county. In these counties the loan program is promoted at local workshops for on-site septic system maintenance, and all area designers and installers of on-site systems are made aware of the program so they may inform potential clients of financing options. Most on-site septic system designers and contractors recognize that these loan programs bring in more business, and these contractors are very willing to help promote the local loan program.

### *Flexibility of Individual Programs*

*Local loan programs are flexible in nature; SRF award recipients can tailor their local loan program to fit the needs of residents while structuring the program into existing wastewater and water quality management efforts.*

*Some local loan programs waive interest on individual loans in lieu of fees to cover administrative costs such as title searches and credit checks. Other programs vary the interest charged to individual borrowers based on the interest rate tied to the SRF award. Some programs allow flexible loan terms, up to 20 years.*

Skagit County	Island County	Thurston County
Terms: 5, 10, or 15 years 2.5 – 3.5 %	Terms: 5 years, 0.5%	Terms: Any term up to 20 years 3.5% (can be 0% if hardship)
Fees: \$82 Title fee to Skagit County Treasurer	Fees: \$75 Treasurer/Auditor fee \$75 Deed of Trust fee \$350 Bank loan fee \$180 Loan disbursement fee \$107.90 Insurance fee \$11.50 Credit report fee	Fees: None
Average Loan: \$12,500	Average Loan: \$13,500	Average Loan: \$12,333
Security: Deed of Trust	Security: Promissory Note and Deed of Trust	Security: Deed of Trust
Marketing: Through county <i>Septics 101</i> workshops, local media ads, word of mouth promotion by local septic system designers and installers, and during permit and inspection process.	Marketing: Through the local health department's <i>Septic Maintenance</i> workshops, word of mouth promotion by local septic system designers and installers and during the inspection/enforcement process.	Marketing: As part of enforcement, letters to local banks, letters to local on-site system installers, promotion at local workshops on on-site system maintenance.
		Thurston County is happy to be able to provide options to residents during the enforcement process.

For applications, guidelines, or other information, please contact Ecology's Water Quality Program at 360-407-6400 or 1-800-833-6388 (TTY), or visit us online at:

<http://www.ecy.wa.gov/programs/wq/funding>

*If you need this information in an alternate format, please contact us at 360-407-6502.  
If you are a person with a speech or hearing impairment, call 711 or 1-800-833-6388 for TTY.*

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Water Quality Program  
P.O. Box 47600  
Olympia, WA 98504-7600

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