



Annual Report

Washington State Water Pollution Control Revolving Fund (SRF)

*Washington State Water Pollution Control
Revolving Account (Account)*

For State Fiscal Year 2009
July 1, 2008 – June 30, 2009

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Annual Report

Clean Water State Revolving Fund

*by
Department of Ecology*

Financial Management Program
Washington State Department of Ecology
Olympia, Washington

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Executive Summary

As the designated agency by the Environmental Protection Agency (EPA), the Department of Ecology (Ecology) has the sole responsibility for the management of the Washington State Water Pollution Revolving Fund (SRF).

Ecology's SRF program is nationally recognized for its integrated business practices and high degree of accountability and sound management.

The SRF is capitalized with annual grants from the EPA and the required 20 percent State match. The State retains 4 percent of each Capitalization Grant (Cap Grant) for administration expenses as allowed by the Clean Water Act (CWA). The majority of the SRF portfolio consists of principal and interest repayments that have revolved in the fund since 1990. Principal and interest repayments are re-loaned to eligible public bodies each year along with associated cap grant.

Ecology updates its interest rates annually. The interest rates are based on a percent of the rate for tax-exempt municipal bonds, which was 4.5 percent for State Fiscal Year (SFY) 09:

(See Long Term Goals 5, 6, & 7 for more information on interest rates).

- The interest rate for a 5 year loan is 1.4 percent (30 percent of tax-exempt municipal bonds)
- The interest rate for a 20 year loan is 2.7 percent (60 percent of tax-exempt municipal bonds)

Ecology often responds to Congressional and Legislative directives that can have a significant domino effect on the day-to-day management of the SRF. Ecology successfully manages this effect through implementing flexible program business practices that are consistent with the Clean Water Act and state and federal requirements.

Washington State has a biennial funding cycle that spans two years and includes two annual funding cycles, which run from July 1 - June 30 of each year. The federal budget cycle runs from October 1 – September 30 of each year.

Due to the differences in the funding cycles, there may be up to a nine month lag from the time Congress passes the federal budget to when the Washington State Legislature approves the state budget, which authorizes Ecology to actually utilize the funds. This is why the Federal Fiscal Year (FFY) 08 Capitalization Grant is administered in the SFY09 funding cycle, which ran from July 1, 2008 -June 30, 2009.

While the primary purpose of this report is to discuss how the State administered the FFY08 cap grant, state match, and principal and interest repayments, a brief discussion is included about significant program development that occurred during the SFY09 funding cycle that paved the way for the SFY10 implementation of the American Recovery & Reinvestment Act of 2009 (Recovery Act).

The Recovery Act Capitalization Grant (Recovery Funds) was awarded to the State as a FFY09 Cap Grant, which correlates to the SFY10 funding cycle. There were no binding commitments made for Recovery Funds in SFY09, but Recovery Funds were used for administration expenses during the SFY09 as shown in Table 1 below.

During the development of State Revolving Fund Annual Report, it became apparent that SRF revenue may have been inadvertently transferred out of the SRF Non-Operating Revenue to pay for a portion of a Contracts & Grants Loan Management (GCLM) project. This new fiscal management system would help Ecology and other state agencies administer their grants, contracts and loan programs more efficiently. Ecology planned to use the GCLM to administer the SRF. This transfer of revenue is shown in Exhibit 4. Ecology recognizes that the costs for the SRF portion of the project should have been paid using the allotted four percent administrative, operating money as allowed by the Clean Water Act or other state funds.

Ecology is reviewing the transfer to determine the type of revenue that was used. It was Ecology's understanding through correspondence with the EPA Region 10 SRF Coordinator that the transfer of revenue for the project was appropriate and "approved." If it is determined that non-operating revenue was transferred for use on the GCLM project, Ecology will develop a plan in conjunction with EPA Region 10 to take corrective action to resolve the issue. More information about the scope of the GCLM project is found in the Program Development section of this report.

Table 1 shows cumulative state match, administration allowances, and one-time funding infusions since the program's inception. SFY10 information is provided at the bottom of the table as a reference. Minor discrepancies in dollar values are due to rounding.

Table 1. SRF Capitalization Grant and State Match SFY90 through SFY09 (SFY10 provided as a reference)

SFY	Title VI Grant Amount*	Recovery Funds**	Title II Funds***	20% State Match	Administration Allowance	Capitalization Grant and State Match
1990	\$16,402,815		\$969,996	\$3,474,562	(\$694,912)	\$20,152,461
1991	\$16,966,719		\$66,030	\$3,406,550	(\$681,310)	\$19,757,989
1992	\$35,689,698		\$182,786	\$7,174,497	(\$1,434,899)	\$41,612,082
1993	\$33,789,195		\$0	\$6,757,839	(\$1,351,568)	\$39,195,466
1994	\$33,425,073		\$0	\$6,685,015	(\$1,337,003)	\$38,773,085
1995	\$20,739,807		\$0	\$4,147,961	(\$829,592)	\$24,058,176
1996	\$21,419,838		\$0	\$4,283,968	(\$856,794)	\$24,847,012
1997	\$22,509,234		\$0	\$4,501,847	(\$900,369)	\$26,110,712
1998	\$23,415,183		\$0	\$4,683,036	(\$936,607)	\$27,161,612
1999	\$23,417,163		\$0	\$4,683,433	(\$936,687)	\$27,163,909
2000	\$0		\$0	\$0	\$0	\$0
2001	\$46,758,889		\$0	\$9,351,778	(\$1,870,356)	\$57,981,023
2002	\$23,132,241		\$0	\$4,626,448	(\$925,290)	\$26,833,399
2003	\$23,183,820		\$0	\$4,636,764	(\$927,353)	\$26,893,231
2004	\$23,033,142		\$0	\$4,606,628	(\$921,326)	\$26,718,444
2005	\$23,047,002		\$0	\$4,609,400	(\$921,880)	\$26,734,522

2006	\$18,739,413		\$0	\$3,747,883	(\$749,577)	\$21,737,324
2007	\$15,228,477		\$11,118,400	\$5,269,375	(\$1,053,875)	\$30,562,377
2008	\$18,612,693		\$796,848	\$3,881,909	(\$776,382)	\$22,515,068
2009	\$11,833,668			\$2,366,734	(\$473,347)	\$13,727,055
Total	\$463,177,738		\$13,134,060	\$92,895,627	(\$21,778,550)	\$619,321,092
2010	\$11,833,668	\$68,151,900			(\$3,199,423)	\$76,786,145

* Capitalization Grants made to Washington State by the EPA under the authority of Title VI -STATE WATER POLLUTION CONTROL REVOLVING FUNDS. SEC. 601 [33 U.S.C. 1381]

**Recovery Funds are administered under the authority of Title VI -STATE WATER POLLUTION CONTROL REVOLVING FUNDS. SEC. 601 [33 U.S.C. 1381], and the American Recovery & Reinvestment Act of 2009. State match is not required.

***One-time funds transfer to the SRF under the authority of the Clean Water Act, TITLE II--GRANTS FOR CONSTRUCTION OF TREATMENT WORKS, section 205(m)(3)(1).

Ecology received 18 eligible applications from local governments during the SFY09 funding cycle and also had three prior good-faith-funding commitments.

In addition to the three prior funding commitments (also identified on the previous year's Intended Use Plan (IUP)), Ecology offered six new applicants funding on the SFY09 Final Intended Use Plan (Final SFY09 IUP). However, the city of Oak Harbor declined its \$300,000 funding offer, which was subsequently awarded to the city of Blaine, whose project rated No. 1 on the SFY09 Final IUP. The city of Ritzville did not use the entire amount offered.

Seven of the SFY09 funding commitments are Section 212 Water Pollution Control Facilities projects, and one, Spokane County Conservation District, is a Section 319 Nonpoint Source Pollution Control project. Six projects are in the Puget Sound, which is in the national estuary program and eligible under the Clean Water Act Section 320 Program.

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Table 2 is a comparison of projects, in priority order, that Ecology included in the Final SFY09 IUP and those actually funded at the close of SFY09. The grey shaded areas indicate previous funding commitments. The green shaded areas are projects in the Puget Sound.

Table 2. Actual Projects Funded Compared to the Final IUP

Recipient	Project Title	Final IUP Award	Actual Awards
KING COUNTY DNRP	Brightwater Marine Outfall Design & Construction Project	\$11,065,940	\$11,065,940
CONCRETE, TOWN OF	Wastewater Treatment Plant Construction	\$287,000	\$287,000
COULEE CITY	Coulee City Wastewater Facility Expansion	\$141,881,00	\$141,881
BLAINE, CITY OF	Blaine Lighthouse Point Water Reclamation Facility Project	\$1,000,000	\$1,300,000*
RITZVILLE, CITY OF	Wastewater Treatment Lagoon Rehabilitation and Upgrade Project	\$4,460,000	\$3,500,000**
LAKE STEVENS SEWER DISTRICT	Sunnyside Wastewater Treatment Facilities Project	\$25,970,567	\$25,970,567
ALDERWOOD WATER & WASTEWATER DIST	Picnic Point Wastewater Treatment Facility Upgrade Project	\$9,015,745	\$9,015,745
SPOKANE COUNTY CONSERVATION DIST	Conservation Tillage Sediment Reduction Program	\$5,000,000	\$5,000,000
OAK HARBOR, CITY OF	Onsite Septic Management and Loan Program	\$300,000*	
		\$57,241,133	\$56,281,133
*The City of Oak Harbor declined funds, so they were transferred to the city of Blaine			
** Ritzville only used \$3,500,000.00. The difference of \$960,000 was carried over to SFY10.			

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Introduction

This report describes ongoing management strategies and how Washington State has met the goals and objectives of its Water Pollution Control Revolving Account (Account) program for State Fiscal Year (SFY) 09. The Account was created to manage the Washington State Water Pollution Control Revolving Fund (SRF). This report also reflects program developments undertaken in anticipation of administering the American Recovery & Reinvestment Act of 2009 (Recovery Act) in subsequent funding cycles.

The Revolving Fund is a key funding source used to advance the water quality goals of the Environmental Protection Agency (EPA) and the Department of Ecology's (Ecology) Water Quality Program (Program). The goal of the Program and the SRF is to prevent and clean up water pollution and help communities make sustainable choices through providing technical and financial assistance for high priority water quality efforts. Funded projects are consistent with the goals of Section 212, 320, and 319 of the CWA, including Washington State's Section 320 Estuary Plan (the Puget Sound Action Agenda), and the "Washington Water Quality Management Plan to Control Nonpoint Source Pollution," June 2005 and Volume 1, with updated Table 5.1 for 2007.

The SRF continues to grow in dollars and complexity. The long-term health of the SRF is strong despite market challenges that negatively affected the public and private sectors. The flexible structure and overall strategy of the SRF enables fund managers to respond to emerging needs of local governments and tribes, as well as legislative directives. This was evidenced in the SRF and Water Quality Program's ability to respond to multiple new demands resulting from the implementation of the Recovery Act.

Ecology manages the SRF with the state-funded Centennial Clean Water Program (Centennial) and the federal Clean Water Act Section 319 Nonpoint Source Grant Program (Section 319). The goal of these major funding programs is the same: to protect and enhance water quality in Washington State. Every attempt is made to integrate and streamline the funding for Ecology and the SRF clients and stakeholders. This provides significant program savings and staff efficiencies.

The SRF is directly managed from Ecology's Headquarters Office in Lacey. Ecology has four regional offices and several smaller field offices throughout the state. Project managers and engineers in the regional and field offices provide technical assistance and the day-to-day project management of funded water quality projects.

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Goals and Progress (Short & Long Term)

Short-Term Goals and Progress

This section provides and updates short and long term goals that were included in the SFY09 Intended Use Plan. Because many of the goals are interrelated, they have been combined where possible.

Short Term Goal No. 1

Continue to work with Ecology's Water Quality Financial Assistance Advisory Council (FAC) for essential input on ensuring consistency with the Clean Water Act; Chapter 70.146 RCW, "Water Pollution Control Facilities Financing," and program rules, guidelines, and policy.

Progress

Ecology convenes the FAC quarterly to discuss issues that impact its funding programs and involve the FAC with strategic planning. Some of the topics brought before the FAC in SFY09 include:

- Regular state and program budget updates and challenges
- Development of the Water Regionalization Study as directed by the legislature
- 2008 Clean Water Needs Survey Results
- Infrastructure financing recommendations as directed by the Governor
- American Recovery & Reinvestment Act of 2009 legislation and its affect on the SRF
- Puget Sound Partnership and program coordination
- State Environmental Review Process (SERP): policy updates and Endangered Species Act (ESA) delegation expectations
- Funding challenges for wastewater industrial, commercial, and institutional flows
- Reclaimed water legislation
- Funding application updates
- Consistency in outcome-focused performance measures

Short Term Goal No. 2

Continue the process to integrate, within federal and state laws, the SRF with the Centennial Clean Water Program (Centennial) and the federal Clean Water Act Section 319 Nonpoint Source Program Grant Program (Section 319) to maximize the limited state and federal grant and loan funds to improve and protect the water quality of the state of Washington.

Progress (See Long Term Goal No. 1 also)

Ecology began to merge the SRF and Centennial programs in 1995 by managing the funding cycles concurrently. In 1997, Ecology integrated the Section 319, SRF and the Centennial funding cycles. On June 29, 2007, Ecology's Director adopted a new chapter of rules that govern the SRF program, which became effective starting SFY09. The intent of this rule amendment was to further integrate the programs where possible.

In 2009, Ecology received approximately \$68 million under the Recovery Act which was to be administered through the existing structure of the SRF. However, the U.S. Congress set special stipulations on Recovery Funds that were not consistent with the existing SRF rule. Ecology integrated Recovery Funds into its existing program through the emergency rulemaking process, which is discussed later in this report. The emergency rule did not apply to projects funded in the SFY09 funding cycle.

Ecology was also directed by the state legislature to accommodate programmatic changes related to its application criteria and funding cycle timeline for the Centennial Program. Program development for these changes began in SFY09, but they will be implemented in SFY10. Due to the integrated nature of the funding programs, changes in one program will often result in changes to all programs unless federal or state law prohibits such changes.

Short Term Goal No. 3

Continue to ensure that the Revolving Fund is sustainable for future projects.

Progress (See Long-Term Goal No. 7)**Short Term Goals No. 4, 5, & 6**

Provide low-interest loans to public bodies for seven water pollution control facilities projects, one nonpoint source pollution control project, and one estuary project.

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Progress

Ecology signed eight loan agreements to help finance seven water pollution control facilities projects, and one nonpoint project. Eighty-five percent (\$48,599,252) of the available funds went to six water pollution control projects located in the Puget Sound.

Table 3. Project Types

Signed Agreements	Project Type	Loan Amount
1	Facilities Construction – Marine Outfall Design-Build	\$11,065,940
6	Facilities Construction - Wastewater Treatment Plant Upgrades	\$41,175,193
1	Nonpoint Pollution Control – Sedimentation Reduction	\$5,000,000

Short Term Goal 7

Administer the SRF and provide technical and financial assistance to loan recipients and potential applicants.

Progress

Ecology continues to administer the SRF program and provide technical and financial assistance to SRF recipients and potential applicants. Ecology's financial and project managers work closely with funding recipients to help ensure that water quality is improved and protected in the most cost-effective and efficient manner. Ecology routinely provides financial and technical assistance to clients and stakeholders. Ecology often sponsors booths at conferences, and staff regularly speaks at various funding and technical assistance conferences.

Annual funding cycle workshops for the SFY09 were held at the following:

- Lynnwood Convention Center: September 5, 2007
- Lacey St. Placid Priory: September 6, 2007
- Spokane Ramada Inn: September 11, 2007
- Ellensburg Hal Holmes Center: September 12, 2007

Annual recipient trainings were held in two locations across the state:

- Moses Lake Big Bend Community College: July 15, 2009
- Lacey Community Center: July 22, 2009

Public Comment Periods held:

- SFY09 Draft Intended Use Plan (Draft SFY09 IUP), Pierce County Library, January 30, 2008

Other:

- Ecology Engineer workgroups are held quarterly to flush out SRF technical assistance issues and disseminate new information.
- Ecology Nonpoint workgroups are held semi-annually, which directly inform the decision making on the Section 319 and Centennial grant program, and indirectly for the SRF program.
- Multiple program learning sessions for clients and stakeholders were included at the Infrastructure Assistance Coordinating Council (IACC) in November 2008 and November 2009.
- Support presentation made to clients and stakeholders on Total Maximum Daily Load (TMDL) at the Washington Association of District Employees annual conference.
- The following Web site is provided to clients and stakeholders:
<http://www.ecy.wa.gov/programs/wq/funding/2009/index.html>

Short Term Goal 8

Continue working with EPA in implementing the SRF and Recovery Fund, and in developing the SFY10 IUP and capitalization grant agreement.

Progress

Both of these documents were submitted to and approved by the EPA on schedule.

Short Term Goal 9

Participate in an EPA-sponsored project for measuring environmental benefits - Core Measurements for Projects.

Progress

Ecology designated a staff person for this task. Information has been entered for all SRF09 loan recipients. Environmental benefits data is found in Exhibit 11 of this report.

Short Term Goal 10

Continue working with the EPA to update and finalize the SRF Operating Agreement.

Progress

The Operating Agreement was successfully updated on October 20, 2008. See Financial Status Section for more details.

Short Term Goal 11

In order to assure the requirements of the Endangered Species Act (ESA) are met, Ecology will coordinate approval of the facility plans with the EPA. If required, a Biological Assessment will be prepared by the project owner, under Ecology direction. The EPA will forward any biological assessments prepared during the environmental review to the appropriate federal agencies for consultation, if required. When consultation is complete, Ecology can then approve the Engineering Report as a Facility Plan, and sign the Revolving Fund loan agreement for the project. When finalized, the Revolving Fund Operating Agreement will be amended to approve this process.

Progress (See Account Financial Status Section for more information on the Operating Agreement)

Ecology has met this goal. The Operating Agreement was updated in October, 2008. The updated Operating Agreement does not include the finalized process, because it was still in the development phase at that time.

Long-Term Goals and Progress

Long Term Goal 1

Integrate, to the greatest extent possible, the SRF with the Centennial Clean Water Program (Centennial) and the federal Clean Water Act Section 319 Nonpoint Source Program (Section 319) to maximize limited state and federal grant and loan funds to improve and protect the water quality of the state of Washington.

Progress (See Short Term Goal No. 2)

SFY09 marked the 13th year that Ecology has used an integrated approach in offering financial assistance to local governments and tribes. This integrated approach includes administering the major funding programs concurrently and leveraging funds together within the regulations and limitations established by state and federal law. The integrated funding cycle has been well received by local governments and tribes. It can provide applicants with a full-funding package for water quality projects. Ecology will use the integrated approach for future funding cycles.

Benefits of a combined funding cycle include:

- Cost savings
- A single application for the three or more funding programs
- One evaluation and selection process for all projects
- Offer lists published in a single volume
- Merge/leverage limited state and federal funds awarded by Ecology
- Simplified and streamlined funding cycle process
- One program guidance document

Long Term Goal 2

Provide financial assistance to communities to achieve compliance with state and federal water pollution control requirements, implement nonpoint source pollution control programs, and develop and implement estuary conservation and management programs.

Progress (See Long Term Goals 2 & 3 also)

Ecology aggressively pursues this goal by developing and implementing the SRF program to provide financial assistance to communities that propose projects that achieve the goals of the State's nonpoint plan (Washington's Water Quality Management Plan to Control Nonpoint Sources of Pollution: Management Strategies—Ecology publication No. 05-10-0277).

For example:

- More application points are awarded for implementation projects vs. planning projects.
- The list of funding applicants is provided to the Puget Sound Partnership for comments on projects located in the Puget Sound.
- Twenty percent of the SRF is set aside for nonpoint source pollution projects, which may include comprehensive estuary conservation and management programs.

Ecology has reserved, through state regulation, 20 percent of SRF funds for the implementation of nonpoint source pollution control programs and for the development and implementation of comprehensive estuary conservation and management programs. In SFY09, five of the funded projects were in the Puget Sound.

Long Term Goal 3 & 4

3 - Protect public health and water quality and achieve overall improvement and protection of the environment.

4 - Encourage local governments to develop and implement projects which will prevent water quality degradation, including wetland protection projects.

Progress

Protecting public health and water quality is the primary mission of the Water Quality Program. This is achieved through the actions discussed in this report, as well as the coordination between the funding program and other programs, such as permitting and other Ecology programs.

Ecology's water quality priorities are demonstrated in its funding program rating and ranking process, which emphasizes cleaning up pollution and preventing it. Twenty five percent of the funding application points are awarded for efforts that improve water quality and public health. Ten percent of the points are awarded for local commitment and planning, which includes the effort to foster local, regional, and statewide partnerships. This includes efforts to protect entire watersheds that may span multiple water resource inventory areas (WRIAs) or county, city, or tribal jurisdictions.

Regional Ecology project managers or engineers that specialize in the proposed water quality project evaluate the project proposals. Ecology holds mandatory evaluator training sessions each year before project managers evaluate projects to ensure that the highest priority water quality projects are funded. There is also a post project evaluation meeting to further disseminate information before the final scores are tabulated.

Ecology project managers work closely with the Financial Management Section at Ecology's Headquarters, TMDL staff, permitting, and the Ecology Watershed Unit. If needed other state agencies are consulted for funding recommendations as well.

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The following is a breakdown of how Ecology evaluators award points to achieve its mission in relation to Long Term Goals No. 3 and 4.

Table 4. SFY Application Point Allocation

1.	Scope of Work	Total 25 Points
	Complete and concise description of the project tasks and outcomes. Provide clear detailed description of project tasks, deliverables, timelines, and purpose.	Up to 10 pts.
	Project directly and measurably addresses a water quality problem.	Up to 15 pts.
2.	Proposed Budget	Total 15 Points
	Complete project budget is consistent with the scope of work.	Up to 2 pts
	The cost estimate process is reasonable.	Up to 3 pts
	The project budget represents a good value for the work and water quality benefit	Up to 10 pts
3.	Water Quality and Public Health Improvements	Total 25 Points
	How severe is the water quality problem and how well is it defined.	Up to 5 pts
	Project will achieve substantial water quality benefits.	Up to 10 pts
	Project success can be measured, and proposed methods to measure reasonable success	Up to 5 pts
	The project provides long-term sustainability of water quality benefits (O &M of the system, long-term on-site septic program follow-up, & watershed management).	Up to 5 pts
4.	State and Federal Requirements	Total 10 Points
	How well does this facilities project address a current permit requirement or other legal requirement? OR How well does this activities implementation project address required actions of a Water Quality Improvement Report, other current approved plan, or a program specifically designed to address water quality problems?	Up to 10 pts
5.	Project Team	Total 5 Points
	Team members' roles & responsibilities are well defined and an estimated percentage of time each team member will devote to this project is adequate for the scope of work.	Up to 3 pts
	Team members' past experience is relevant.	Up to 2 pts
6.	Project Development and Local Support	Total 10 Points
	A comprehensive decision making process was used to arrive at the proposed project.	Up to 5 pts
	The level of local support and commitments for the project is documented (ongoing review of sewer user rates, watershed planning, interlocal cooperation, ordinances...).	Up to 5 pts
7.	Readiness to Proceed	Total 5Points
	Project elements are in place for the project to proceed and documentation is provided.	Up to 5 pts
8.	Ratepayer Impact	Total 5 Points

Long Term Goal 5, 6 & 7

5 - Assist communities with financial difficulties in meeting required public health and water quality standards while maintaining the health and perpetuity of the SRF according to federal law and guidance.

6 - Provide the type and amount of financial assistance most advantageous to communities consistent with the long-term health of the fund.

7 - To administer the SRF program to ensure financial integrity, viability, and the revolving nature of the fund is maintained.

Progress

If a facilities project causes a financial hardship on the utility ratepayer, Ecology may offer additional hardship assistance to make the project more affordable. This hardship assistance can include extending the loan term to 20 years and lowering the interest rate to zero percent.

Ecology revised and updated its hardship process to improve the long term financial health of the SRF. Previously, financial hardship assistance was available to loan recipients for the existing residential need portion of a water pollution control facility construction project if the project caused a residential sewer user charge in excess of 1.5 percent of the median household income (MHI).

Effective SFY09, the eligibility threshold for hardship went up to 2.0 percent. In coordination with the FAC, Ecology amended its rule and developed a new hardship, sliding scale continuum as shown below in Table 5. To maintain the integrated nature of the funding programs, a similar continuum was developed for the associated Centennial grant program.

Ecology tested this model before implementation by applying it to the seven hardship projects that were offered funding in SFY08, all at a zero percent interest rate. As expected, most of the test subjects moved into a very low-interest bearing scenario, while the “severe” financially-distressed communities remained at zero percent. The results were appropriate based on Ecology’s experience and knowledge of the test subjects.

Hardship determination example (use with Table 5 below):

Assuming that the average market rate for tax-exempt municipal bonds is five percent, the following would apply:

When an applicant with a service area population of twenty-five thousand or less can demonstrate that its sewer user rates for the proposed project are between three and five percent of the median household income, the applicant may be eligible for a 20-year repayment term and a one percent interest rate. This interest rate represents 20 percent of the average market rate for tax-exempt municipal bonds.

Table 5. Loan Hardship-Funding Continuum (adopted on June 20, 2009 and effective SFY09)

Sewer User Fee divided by MHI	Below 2.0%	2.0% and above, but Below 3.0%	3.0% and above, but below 5.0%	5.0% and above
Hardship Designation	Non-Hardship (Low sewer user rates in relation to MHI) (Not funded with grant dollars)	Moderate Hardship	Elevated Hardship	Severe Hardship (Very high sewer user rates in relation to median household income(MHI))
Loan Hardship-Funding Continuum	Loan at 60% of market rate	Loan at 40% of market rate	Loan at 20% of market rate	Loan at 0% interest

Perpetuity

Ecology monitors the SRF program to ensure that the SRF is available in perpetuity as required by the Clean Water Act. While the Clean Water Act does not define perpetuity, Ecology defined perpetuity in Chapter 173-98 WAC:

“The point at which the water pollution control revolving fund is earning at least fifty percent of the market rate for tax-exempt municipal bonds on its loan portfolio.”

This rate is determined at the same time that the interest rates are set for each funding cycle.

For the SFY09 funding cycle, fifty percent of the tax-exempt municipal bond interest rate was 2.36 percent. While the weighted average of loans offered for SFY09 is 2.61 percent, the weighted average interest rate for entire portfolio is 1.96 percent. The weighted interest rate for the portfolio in SFY08 was 1.9 percent. The weighted interest trend is up due to the new method in which Ecology determines hardship.

A comparison of previous years (before SFY08) weighted averages is not shown. This is due to a variation on how the weighted average is now calculated versus the way it was calculated in the past. Ecology staff now calculates the weighted average using all loans in the portfolio. In the past it was calculated on loans in disbursement and repayment and excluded those that were paid off. This did not accurately reflect the weighted interest rate of the entire loan portfolio.

Ecology expects to meet the goal of perpetuity by 2016 as defined by 173-98 WAC.

Interest Rates

The interest rates for SFY09 follow:

The following interest rates are based on a percent of the interest rate for tax-exempt municipal bonds of 4.5 percent.

- The interest rate for a 5 year loan is 1.4% (30 percent of tax-exempt municipal bonds)
- The interest rate for a 20 year loan is 2.7% (60 percent of tax-exempt municipal bonds)

A reduced interest rate is available for stormwater projects if the public body can demonstrate that the MHI of the service area of the project is at or below 60 percent of the statewide MHI. Interest rates for stormwater hardship follow:

- 5 year loan: 15 percent of the rate for tax-exempt municipal bonds
- 20 year loan: 30 percent of the rate for tax-exempt municipal bonds

Interest rates for hardship loans vary according to level of hardship. Table 6 below lists the distribution of interest rates on all loans in the SRF. More information on interest rates for the SFY09 funding cycle is found in Table 8 of this report.

Table 6. Distribution of Loans by Interest Rate (Cumulative)

Loan Percent	Assistance Amount	Percent of Total Portfolio*
Total \$ 0.0% Loans	\$256,631,078	26.45%
Total \$ 0.5% Loans	\$23,440,406	2.41%
Total \$ 1.3% Loans	\$533,000	0.05%
Total \$ 1.5% Loans	\$313,212,836	32.29%
Total \$ 1.8% Loans	\$1,300,000	0.13%
Total \$ 2.0% Loans	\$6,824,166	0.70%
Total \$ 2.6% Loans	\$52,244,904	5.30%
Total \$ 2.7% Loans	\$51,052,252	5.26%
Total \$ 3.1% Loans	\$40,850,059	4.48%
Total \$ 3.2% Loans	\$320,635	0.04%
Total \$ 3.5% Loans	\$29,060,736	2.99%
Total \$ 3.8% Loans	\$102,723	0.01%
Total \$ 4.0% Loans	\$7,998,767	0.82%
Total \$ 4.1% Loans	\$31,084,083	3.20%
Total \$ 4.3% Loans	\$17,588,838	1.81%
Total \$ 4.4% Loans	\$17,455,425	1.79%
Total \$ 4.5% Loans	\$10,905,410	1.12%
Total \$ 4.8% Loans	\$20,858,084	2.10%
Total \$ 5.0% Loans	\$88,457,204	9.12%
Total:	\$969,920,606	100 %
*Minor discrepancies due to rounding Total Weighted Interest Rate: 1.96% See Table 8 in the Account Financial Status section for SFY09 interest rates on individual projects.		

Program Development

Discussion

This report primarily covers the SFY09 funding cycle that ended on June 30, 2009, which is approximately six months before the issuance of this report. However, important program development efforts often span multiple fiscal years. This section is meant to better frame major efforts that span multiple funding cycles, including the enactment of the American Recovery & Reinvestment Act of 2009 (Recovery Act). Topics discussed in this section will be discussed in greater detail in next year's annual report (SFY10).

Recovery Act

Although Recovery Act Funds were not loaned to local governments during the SFY09 funding cycle, Recovery Funds were used for program administration, which included the development of an emergency rule, a state certification process, federal reporting business practices, and statewide internal and external Recovery Act training. This work laid the foundation for administering Recovery Funds in subsequent funding cycles.

Emergency Rule (Recovery Act)

Ecology provided the administrative framework for funding decisions related to the Recovery Act through an emergency rule amendment to Chapter 173-98 WAC, Uses and Limitations of the Washington State Water Pollution Control Revolving Fund.

The emergency rule was effective from April 15, 2009, until August 13, 2009. Rule amendment topics included:

- Level of principal forgiveness and hardship criteria
- New and existing technical and federal prerequisites
- Wastewater, stormwater, and reclamation/reuse facilities, and Green Project Reserves
- Project timelines and other program information

State Certification Process (Recovery Act)

In accordance with the American Recovery and Reinvestment Act of 2009 (Recovery Act) Section 1511, a certification process was developed in which Governor Christine Gregoire certifies that all the infrastructure projects receiving Recovery Act funding have received the full review and vetting required by law and that the investment is an appropriate use of taxpayer dollars.

Before the Governor can certify a Recovery Act Project the project must be:

- Reviewed, rated, and ranked by regional engineers/project managers to identify priority, shovel-ready projects

- Listed in the draft or final Intended Use Plan
- In compliance with all federal cross-cutters and other federal and state requirements
- Approved by key Ecology staff in the Financial Management Section, Regional Office, and upper management before submittal to the Governor for certification

Grants & Contracts Payable System

The grant, contract, loan management system (GCLM) project started in 2005 when the Departments of Ecology and Community, Trade and Economic Development requested state assistance for development and implementation of the new information management system. Instead of developing multiple systems, it was decided the Office of Financial Management (OFM) would lead the development of a commercially-available-enterprise system for managing the state's grants, contracts, and loans.

The primary purpose of the new system is to provide a clear view across the entire state of where grant and loan money goes and what is achieved. The system was meant to provide significant improvements in data management, tracking, and overall project management. Other benefits expected from the system included:

- Improved collaboration across agencies;
- Faster, better business processes for our providers and agency staff;
- Streamlined and integrated program services;
- More proactive project monitoring;
- Online access to better information for better decisions and better results; and
- Avoided costs for duplicated systems at each agency over time.

In 2008, after clearly mapping out business processes, data flow, and data management requirements, a contractor was selected to develop and implement the GCLM. As of September 2009 some basic elements of the system were produced for evaluation by OFM. However, issues related to the contractor's ability to deliver a system that meets the minimum contracted business requirements became an issue.

In November of 2009, the GCLM executive advisory team, which consisted of Ecology's Deputy Director and other high-level managers from OFM and the Department of Commerce, made the decision to disinvest from the GCLM project. The primary reason for discontinuing the project is that original scope was too broad and proved unachievable by the selected contractor.

It is anticipated that a portion of Ecology's investment in this project will be refunded, but the amount of the refund is unclear at this time.

Design-Build and Design-Build-Operate (DB and DBO)

Ecology updated its rule, effective SFY09, to formalize the process for funding DB and DBO projects. Both DB and DBO projects are eligible for funding, but because of the way the contracts are procured, they are managed differently than traditional “low bid” projects. WAC 173-98-600 contains the conditions that apply, including the requirement for delegated technical review, submittal of primary design elements, and the ineligibility of change orders.

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Account Financial Status

Binding Commitments & Financial Assistance Activity

The CWA requires binding commitments for 120 percent of the federal grant payment within one year following the receipt of the federal grant payment. Table 7 shows that Ecology has met this requirement.

Table 7. Binding Commitments with Respect to Federal Grant Payments

		Percent of Cap Grant under Binding Commitment within Required Timeframe
Cumulative cap grant received ending June 30, 2009	\$464,478,129	
Cumulative Binding Commitment Required by June 30, 2009	\$557,373,754	120%
Actual Binding Commitment as of June 30, 2009, including cap grant and state match only	\$557,373,754	120%
Actual Cumulative Binding Commitments ending June 30, 2009, including match & principal and Interest repayments	\$900,612,834*	162%

Notes: This amount was derived from adding the SFY09 binding commitments to the cumulative binding commitments listed in this section for last year's annual report (SFY08).

Table 8 includes SFY09 project interest rates and the dates they were signed into binding commitments.

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Table 8. Projects List with Interest Rate and Binding Commitment Date

Recipient	Project Title	Award	Interest Rate	Date of Binding Commitment
KING COUNTY DNRP	Brightwater Marine Outfall Design-Build Project	\$11,065,940	2.7%	10/26/08
CONCRETE, TOWN OF	Wastewater Treatment Plant Construction	\$287,000	0%	7/24/08
COULEE CITY	Coulee City Wastewater Facility Expansion	\$141,881.00	0%	2/13/09
BLAINE, CITY OF	Blaine Lighthouse Point Water Reclamation Facility Project	\$1,300,000	1.8%	10/27/08
RITZVILLE, CITY OF	Wastewater Treatment Lagoon Rehabilitation and Upgrade Project	\$3,500,000	2.0%	10/30/08
LAKE STEVENS SEWER DISTRICT	Sunnyside Wastewater Treatment Facilities Project	\$25,970,567	2.7%	12/12/08
ALDERWOOD WATER & WASTEWATER DIST	Picnic Point Wastewater Treatment Facility Upgrade Project	\$9,015,745	2.7%	12/11/08
SPOKANE COUNTY CONSERVATION DIST	Conservation Tillage Sediment Reduction Program	\$5,000,000	2.7%	2/13/09

Financial Statements

The exhibits provided at the end of this report present the unaudited financial statements for the SRF09 program. Exhibit 6, Notes to Financial Statements, is integral to the financial statements.

Credit Risk of the SRF

The SRF loan agreement requires a dedicated source of funds for repayment of the loan. Dedicated sources of revenue are a general obligation pledge or a revenue pledge. In the event of an SRF loan default, state law enables Ecology to withhold any state funds otherwise due to the community and direct that such funds be applied to the indebtedness and deposited into the SRF account. In addition, Ecology staff conducts financial capability assessments on all facilities project loan recipients before signing the funding agreements. The financial capability assessment process continues to improve based on experience evaluating financial indicators and risk factors. Ecology plans to coordinate with other state and federal funding agencies to review common risk assessment methods used and streamline the process where possible.

The assessment process builds on lessons learned from the previous funding cycle, and it includes a review of the most current financial information with a focus on ensuring adequate operating revenue in relation to operating expense and the commitment of the borrower to

adequately raise sewer rates to meet the debt servicing on the loan. The information obtained for the assessment will inform Ecology staff for the subsequent funding cycle with the goal of continually improving the process.

Many borrowers used the cash-basis reporting procedures. This method is approved by the Washington State Auditor's Office pursuant to RCW 43.09.200 (known as category 2 for cities and towns with populations under 25,000).

A common thread that could be applied to all borrowers was a review of the commitment to raise sewer rates enough to cover the cost of funding and maintaining the facility, as well as establishing the required reserve account for a 20 year loan. To this end, Ecology reviewed all resolutions, ordinances, meeting minutes, or strategic plans related to this commitment.

Ecology includes funding agreement language in all loans to ensure that each borrower reviews its sewer rate structure at least annually and updates Ecology on the progress in meeting the goals and objectives included in sewer use ordinances, resolutions, and rate studies. This new condition was used in all of the new facilities loan agreements. In January 2010, Ecology will request updates from borrowers that were funded in SFY09. Ecology will request updates again in January 2011.

Upon completing the credit worthiness assessments, Ecology staff forwarded two samples to the EPA SRF Economic Analyst for review. The EPA Analyst agreed that Ecology had fulfilled its obligation to develop a process for the assessments and agreed that the approach was reasonable. Ecology will continue to monitor the SFY09 projects and work with the EPA in its efforts to refine the process for SFY10. By SFY11, Ecology will begin to include activities loans in its assessment.

Provisions of the Operating Agreement/Conditions of the Grant

On October 20, 2008, Ecology and the EPA negotiated updates to the conditions in the Operating Agreement.

Ecology is in compliance with all of the requirements of the Operating Agreement, which include:

1. Agreement to Accept Payments
2. State Laws and Procedures
3. State Accounting and Auditing Procedures
4. Recipient Accounting and Auditing Procedures
5. Use of the Letter Of Credit
6. Repayments
7. Annual Audit
8. Annual Report
9. Annual Review

10. Anti-Lobbying
11. Drug-Free Workplace
12. Provide a 20 Percent State Match
13. Binding Commitments
14. Expeditious and Timely Expense
15. First Use of Funds for Enforceable Requirements
16. Eligible Activities of the SRF
17. Minority Business Enterprise/Women Business Enterprise (MBE/WBE) Requirement
18. Other Federal Authorities
19. State Environmental Review Process (SERP)
20. Cash Draw Procedures

Requirements 13-20 are discussed in more detail below:

13. Binding Commitments

The State Treasurer deposited into the SRF a payment that always totaled at least 20 percent of the federal funds on or before the date that the federal funds were deposited.

14. Expeditious and Timely Expense

In SFY09 the state of Washington disbursed all cash draws and other available SRF funds in a timely and expeditious manner as shown in Table 8 of this report. In SFY09 the timeframe for funding applicants to negotiate and sign a loan was shortened from one year to six months.

15. First Use of Funds for Enforceable Requirements

Ecology has met the first use requirement. All National Municipal Policy projects have been provided funding and have met enforceable requirements of the CWA.

16. Eligible Activities of the SRF

All projects funded were for eligible activities of the SRF.

17. Minority Business Enterprise/Women Business Enterprise (MBE/WBE) Requirement

All SRF recipients were required to follow MBE/WBE objectives according to federal and state law. Ecology will comply with the SRF Operating Agreement regarding the MBE/WBE requirement and require loan recipients to document how or if they are meeting these goals.

18. Other Federal Authorities

Ecology and all recipients of SRF funds have complied with mandates of applicable federal requirement authorities. Recipients of SRF assistance agreed to comply as they signed SRF financial assistance agreements.

19. State Environmental Review Process (SERP)

During SFY09 Ecology conducted environmental reviews on all Section 212 projects proposed for funding in accordance with the State Environmental Review Process (SERP). All Section 212 projects funded were determined to be in compliance with the SERP.

Ecology is in the process of updating the procedures and documentation used for the State Environmental Review Process (SERP). The SERP is used by Ecology to ensure that federal environmental cross cutters are complied with. This update will improve transparency and increase applicant certainty with the process.

20. Cash Draw Procedures

Exhibit 2 shows that, during SFY09, \$78,988,881 was disbursed to loan recipients for projects and to Ecology for program administrative costs. It also details the draws for the federal and state shares and the federal share as a percent of disbursements.

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Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) is presented to introduce the annual financial statements of the Washington State Water Pollution Control Revolving Fund (SRF) for the year ending June 30, 2009, and supplements these financial statements. The Washington State Department of Ecology (Ecology) is responsible for the content of these financial statements. The MD&A provides readers with a summary of the issues and information Ecology management hopes is useful to the reader.

The Water Pollution Control Revolving Fund Program

The SRF Account was established to provide financial assistance in the form of low-interest loans to local governments and tribes for high priority water quality projects. Ecology receives an annual grant from the U.S. Environmental Protection Agency (EPA). The State Fiscal Year 2009 (SFY09) Capitalization Grant was \$11,833,668. Ecology matches 20 Percent of the grant award with state funds, or \$2,366,734 SFY09. These funds, combined with repayments on existing loans and investment income, totaled over \$37,482,949 for SFY09. The SRF loan interest rates are between zero and 2.7 Percent.

Net Assets of the SRF

The SRF program has no capital assets and no related debt. The total amount of reported net assets as of June 30, 2009 is \$630,272,227.

Income for Fiscal Year 2009

Net operating income of the SRF for SFY09 was \$7,230,953. Operating income includes those amounts earned by the ordinary activities of the program, less the related expenses. Ordinary activities of the program include interest earned on loans and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment. Net operating income for SFY08 was \$7,038,276.

Net operating income increases the amount of net assets in the program. Other increases to net assets include amounts actually received from the EPA Capitalization Grant and amounts contributed as grant match by the state of Washington. In SFY09 the amount of federal funds earned was \$22,085,553 and the amount of state matching funds received during the year was \$4,383,919.

Changes in Cash Position

During SFY09 the SRF cash decreased by \$9,859,777, as indicated on the Statement of Cash Flows. Total loan repayments, including principal and interest received from borrowers was \$41,419,450. Interest credited to the SRF account from the State Treasurer's Office totaled \$1,481,534. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$1,488,573. Cash received from EPA capitalization grant funds totaled \$22,044,032, and matching funds provided by the state of Washington totaled \$4,390,797. Cash decreased from SFY08 and SFY09. Ecology's goal is to see cash continue to decrease as Ecology awards more loans in SFY10.

Business Decisions Affecting the SRF Program

Ecology implemented a new rule for the State Fiscal Year 2009 funding cycle that determines hardship interest rates based on a sliding scale continuum. This process is discussed under the Long Term Goal Section of this report (Long Term Goals No. 5, 6, & 7). The new rate structure will help ensure perpetuity of the SRF fund. In the long term, the interest rate structure will prove beneficial to state and local government and citizens as the fund will better keep pace with inflation. We expect that SRF loans will remain competitive and affordable compared to loans issued by private banks and municipal bonds.

State Matching Funds

For State Fiscal Year 2009, State matching funds were made available through the Washington State Water Quality Account. Revenue from this account is derived from tobacco taxes and transfers from the State legislature through the State General Fund. Starting in SFY10, the State matching funds will be made available from the State Building Construction Account. Revenue from this Account is derived from the sale of general obligation bonds.

Recovery Act Clean Water State Revolving Fund

During SFY09, Congress appropriated funds to Ecology under the American Recovery and Reinvestment Act of 2009 (Recovery Act). Enacted on February 17, 2009, due to a national economic crisis, the Recovery Act is intended to stabilize the economy through job creation, provide investments needed to increase economic efficiency by spurring technological advances in science and health, and investment in infrastructure that will provide long term economic benefits.

The Environmental Protection Agency (EPA) awarded a capitalization grant from the Recovery Act for federal fiscal year (FFY) 2009, totaling \$68,151,900. Of this amount, \$65,425,824 of Recovery funds is available for projects and \$2,726,076 is available to administer the program. Recovery Act funds are in the process of being awarded in SFY10. As of December 31, 2009, 84 percent of the funds are under agreement and over 63 percent are under construction contract.

Conclusion

This MD&A provides a summary of the financial condition of the SRF loan program and should be read in conjunction with other information and financial data provided in this report. The financial statements, footnotes, and supplemental information contained in this annual report provide a detailed analysis of the program's financial position and results of operations.

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Exhibits

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
Exhibit 1 - New Projects Receiving SFY09 Financial Assistance

Recipient	Project Title	Final IUP Award	Interest Rate	Terms (Years)	Date of Binding Commitment (Effective)	Start Date
KING COUNTY DNRP	Brightwater Marine Outfall Design & Construction Project	\$11,065,940	2.7%	20	10/26/08	06/01/06
CONCRETE, TOWN OF	Wastewater Treatment Plant Construction	\$287,000	0%	20	7/24/08	01/23/07
COULEE CITY	Coulee City Wastewater Facility Expansion	\$141,881,00	0%	20	2/13/09	11/01/06
BLAINE, CITY OF	Blaine Lighthouse Point Water Reclamation Facility Project	\$1,000,000	1.8%	20	10/27/08	10/01/08
RITZVILLE, CITY OF	Wastewater Treatment Lagoon Rehabilitation and Upgrade Project	\$4,460,000	2.0%	20	10/30/08	09/01/08
LAKE STEVENS SEWER DISTRICT	Sunnyside Wastewater Treatment Facilities Project	\$25,970,567	2.7%	20	12/12/08	05/31/08
ALDERWOOD WATER & WASTEWATER DIST	Picnic Point Wastewater Treatment Facility Upgrade Project	\$9,015,745	2.7%	20	12/11/08	03/05/08
SPOKANE COUNTY CONSERVATION DIST	Conservation Tillage Sediment Reduction Program	\$5,000,000	2.7%	20	2/13/09	11/01/08
OAK HARBOR, CITY OF	Onsite Septic Management and Loan Program	\$300,000*				
		\$57,241,133				

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 2 - Disbursements and Accruals

June 30, 2009

	SFY 2009	Federal	State
2009 DISBURSEMENTS FOR LOANS	\$24,872,320	\$20,726,106	\$4,146,214
2009 DISBURSEMENTS FOR ADMIN	\$1,281,865	\$1,068,292	\$213,573
TOTAL DISBURSEMENTS	\$26,154,185	\$21,794,397	\$4,359,788
2009 CASH DRAW FROM CAPITALIZATION GRANTS	(\$21,794,397)		
2009 STATE MATCH (20% of CASH DRAWS)	\$4,359,788		
2009 100% STATE FUNDS DISBURSEMENTS	\$52,834,696		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$78,988,881		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.33%		

NOTE: The American Recovery and Reinvestment Act of 2009 is not part of this exhibit. It is 100% federal.

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 3 - Net Assets & Balance Sheet

	2009	2008
Assets:		
Current assets:		
Cash and cash equivalents	37,573,564	47,433,341
Receivables:		
Due from federal government	317,745	101,543
Interest on SRF loans	1,619,849	1,479,350
Due from other funds	229,723	302,466
Total receivables	2,167,317	1,883,360
Collateral Held/Security Lending Agreements	0	4,346,333
Current maturities of SRF loans	30,391,971	26,334,414
Total current assets	70,132,852	79,997,448
Loans receivable, net of current maturities	567,886,868	520,836,373
Total assets	638,019,720	600,833,821
Liabilities and Fund Equities:		
Current liabilities:		
Accounts payable and accrued expenses	117,459	93,127
Due to other funds	261,043	34,420
Obligation Under Security Lending Agreement	0	4,346,333
Construction costs payable	7,368,991	1,211,981
Total current liabilities	7,747,493	5,685,862
Net Assets:		
Restricted	630,272,227	595,147,959
Total liabilities and net assets	638,019,720	600,833,821

The accompanying notes are an integral part of the financial statements

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 4 - Statement of Revenue, Expenditure Equity

	2009	2008
Operating Revenues:		
Interest income on SRF loans	\$8,803,974	\$7,944,999
Operating Expenses:		
Salaries and benefits	\$1,123,994	\$634,286
Supplies	\$38,113	\$25,465
Travel	\$8,983	\$18,999
Indirect costs	\$401,415	\$226,972
Contracts	\$0	\$0
Equipment	\$515	\$1,001
Total operating expenses	\$1,573,021	\$906,723
Operating income (loss)	\$7,230,953	\$7,038,276
Non-operating Revenue (Expenses)		
Interest on investments	\$1,423,686	\$1,781,302
Funds received from EPA	\$22,085,553	\$16,494,241
Funds received from State of Washington	\$4,383,919	\$3,270,942
Immaterial Adjustments to Prior Period	\$157	\$0
Transfer out IT Project	\$0	(\$239,000)
Total non-operating revenue	\$27,893,315	\$21,307,485
Change in net assets	\$35,124,268	\$28,345,761
Net assets, beginning of year	\$595,147,959	\$566,802,199
Net assets, end of year	\$630,272,227	\$595,147,959

The accompanying notes are an integral part of the financial statements

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 5 - Comparative Statement of Cash Flows

	2009	2008
Cash Flows from Operating Activities:		
Receipts from customers	\$9,931,810	\$6,429,481
Payments to employees and suppliers	(\$1,488,573)	(\$862,442)
Loans Disbursements	(\$77,707,016)	(\$42,827,331)
Repayments on loans	\$31,487,640	\$25,938,696
Net cash provided (used) by operating activities	(\$37,776,140)	(\$11,321,596)
Cash Flows from Non-capital Financing Activities:		
Funds received from EPA	\$22,044,032	\$16,334,732
Transfers from other State funds	\$4,390,797	\$3,270,942
Transfer out from IT Project	\$0	(\$239,000)
Net cash provided (used) by non-capital financing activities	\$26,434,829	\$19,366,674
Cash Flows from Investing Activities:		
Receipts from interest on investments	\$1,481,534	\$1,801,642
Net cash provided (used) by investing activities	\$1,481,534	\$1,801,641
Net cash provided (used)	(\$9,859,777)	\$9,846,718
Cash and cash equivalents, beginning of year	\$47,433,341	\$37,586,622
Cash and cash equivalents, end of year	\$37,573,564	\$47,433,340

The accompanying notes are an integral part of the financial statements

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 6 – Notes to Financial Statements

The accompanying notes are an integral part of the financial statements

1. Summary of Significant Accounting Policies

Reporting Entity

Washington's Water Pollution Control Revolving Account (The Account) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act) and RCW 90.50A.020. The Act established the State Revolving Fund (SRF) program to replace the construction grants program. The Washington State Department of Ecology (ECY) has exclusive responsibility for management of the SRF, per the Operating Agreement between the U.S. Environmental Protection Agency, Region 10, and the Washington State Department of Ecology. This annual report and the accompanying financial statements are for the SRF and The Account, neither of which are legally separate entities.

Operation of the SRF and the Account

The SRF provides loans at reduced interest rates to finance qualified projects for the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and the development and implementation of estuary conservation and management plans. Loans made by the Account must be repaid within 20 years, and all repayments, including interest and principal, must be credited to the Account.

The Account was capitalized by a series of grants from the U.S. Environmental Protection Agency (EPA) starting in 1989. States are required to provide an additional 20 percent of the Federal capitalization grant amount as matching funds in order to receive the grant from EPA. The State has been awarded \$532,630,029 in capitalization grants from 1989 through June 30, 2009. The State match share for that awarded amount is \$92,895,625. State match is transferred to the Account from the Water Quality Account (#139) at time of each cash draw.

The Account is administered by the ECY through the Water Quality Program (the Program). The Program's primary responsibilities for the SRF includes obtaining capitalization grants from EPA, soliciting potential interested parties, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

The Account does not have any full-time employees. ECY employees charge the Account for actual time worked on SRF activities. The charges include the salaries and benefits of the employees as well as indirect costs allocated to the Account based on direct salary and benefit costs. Employees charging time to the Account are covered by the benefits available to Washington State Employees.

Basis of Accounting

The financial statements for the Account are presented as an enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded as earned and expenses are recorded when the liability is incurred. The State has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board (GASB), as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

The Account is included in the state of Washington's general purpose financial statements as a special revenue account, which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the general purpose financial statements.

Cash and Cash Equivalents

All monies of the Account are deposited with the State Treasurer's Office and are considered cash. According to State law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the Account. Consequently, Ecology staff that provides management of the Account does not have control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Loans Receivable

ECY operates the Account as a direct loan program which makes loans to communities through funding by the Federal capitalization grant for 83.3 percent of the loan amount, and funding by State matching for 16.7 percent of the loan amount. Loan funds are disbursed to local entities after they expend funds for the purposes of the loan and then request reimbursement from the Account. Interest is calculated from the date the state warrant is mailed or the Electronic Fund Transfer settlement date. After the final disbursement, the loan amount and repayment schedule are adjusted for actual funds disbursed and interest accrued during the project period. No provision for uncollectible accounts has been made as management believes that all loans will be repaid according to the loan terms.

Funds from EPA

In accordance with generally accepted accounting principles (GAAP), funds received from EPA and Washington State for the capitalization of the Account are recorded as funds from EPA and the state of Washington, as discussed in Note 4.

2. Deposits and Investments

All monies of the Account are deposited with the State Treasurer's Office as part of the State's Treasury/Trust Portfolio, and are considered cash. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The Account's proportionate share of the investment income, based on the average daily balance for the period, is credited to the Account monthly. The Treasurer charges the Account one-half of one percent of the average daily balance for administration costs. As of June 30, 2009, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was 3.7 billion. Details of the investments can be obtained from the State Treasurer's Office.

All cash and investments are stated at cost, which approximates fair market value.

	Carrying Amount	Market Value
Treasury/Trust Portfolio June 30, 2009	<u>\$37,573,564</u>	<u>\$37,573,564</u>

3. Loans Receivable

The Account makes loans to qualified entities for projects that meet the eligibility requirements of the Clean Water Act. Loans are financed by capitalization grants, state matches, and revolving funds. Interest rates for FY 2009 were established at 1.4 percent for up to a five year-term and 2.6 percent for loans with more than a five-year term, but no more than 20 years. The Account also makes zero interest rate loans for communities that can demonstrate financial hardship on residential ratepayers in the form of sewer user fees. As of June 30, 2009, 26.45 percent of the Account consisted of zero-interest-rate loans for approximately \$256,631,078 to communities with severe financial hardship. These numbers do not include recipients with paid-off loans. Loan repayments are required to start one year after initiation of operations or project completion, whichever occurs first. Details of loans receivable as of June 30, 2009, are summarized below:

Loans by Category:

Loans receivable by project status at June 30, 2009, are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Outstanding Balance</u>
Completed projects	648,279,381	0	492,635,727
Projects in progress	198,836,854	99,643,584	<u>99,193,270</u>
Totals			591,828,997
Payment requests in progress (Received as of June 30, 2009, but not yet paid)			6,449,842
Less Amount Due in one year			(30,391,971)
Loans receivable, June 30, 2009 (Net of current maturities)			<u>567,886,868</u>

Loans mature at various intervals. The scheduled minimum **principal** repayments on completely disbursed loans in subsequent years are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2010	31,859,073
2011	31,304,287
2012	31,583,181
2013	31,994,399
2014	32,464,803
Thereafter	322,013,857
	<u>\$481,219,600</u>

Loans to Major Local Entities:

As of June 30, 2009, the Account made loans to the following major local entities. The aggregate outstanding balance for each of these entities exceeds \$5 million. The outstanding balances of these loans represent approximately 78 percent of the total loans receivable:

(Figures are in Thousands)

<u>Entity</u>	<u>Authorized Loan Amount</u>	<u>Project Period Interest</u>	<u>Loan Amount At Completion</u>	<u>Outstanding Balance</u>
City of Bremerton	9,037	132	8,263	6,431
City of Camas	9,292	720	10,012	6,565
City of Centralia	35,318	42	35,359	27,166
City of Chehalis	35,347	44	34,895	31,859
City of Cheney	14,049	315	9,749	8,553
City of Colville	6,171	20	6,191	5,632
City of Kalama	7,031	-	7,031	6,179
City of Kennewick	9,693	670	10,364	6,247
City of Lynden	6,522	116	6,639	5,122
City of Monroe	11,808	527	12,335	5,449
City of Mount Vernon	19,881	64	18,083	17,395
City of Olympia (LOTT)	36,580	4,890	41,470	14,554
City of Pasco	22,726	2,285	25,011	15,021
City of Stanwood	9,306	-	9,306	7,243
City of Sunnyside	12,377	-	12,377	11,425
City of Tacoma	73,238	1,940	75,178	74,125
City of Toppenish	12,158	-	7,289	6,230
City of Walla Walla	13,780	831	14,610	9,177
City of Wenatchee	7,195	197	7,392	6,746
City of Winlock	7,017	4	7,020	6,618
King Co. Dept. Nat. Resources	106,097	2,395	106,034	89,820
King Co. Wastewtr. Treat. Div.	28,292	98	23,934	19,640
Kitsap County Public Works	10,173	178	10,351	8,655
Kitsap County Sewer District	1,773	61	1,834	783
Lake Stevens Sewer District	13,969	99	14,069	13,678
Lott Wastewater Alliance	30,052	1,111	31,163	28,892
Mason County	16,730	96	15,921	8,043
Seattle Public Utilities	9,535	159	8,034	7,504
Spokane County	19,140	66	16,866	13,602
Spokane County Conservation	14,131	271	12,819	9,997
Total	<u>\$608,418</u>	<u>\$17,331</u>	<u>\$599,599</u>	<u>\$478,3510</u>

The loan amount at completion may not agree with the authorized loan amount plus capitalized project period interest. Communities may elect to pay capitalized project period interest separately or add the amount to the final loan amount. Further, the authorized loan amount is based on estimates, and final project costs may be different than estimated.

4. Funds from EPA and the State of Washington

The Account is funded by grants from EPA authorized by the Clean Water Act and by matching funds from the State. All funds drawn are recorded as non-operating revenue from the EPA and Washington State. Since 1989, EPA has awarded a total of \$532,630 in grants to the State, of which \$419,191 has been drawn for loans and administrative expenses. The State has provided a total of \$83,726,291 in matching funds for that total drawn amount. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

(Figures are in Thousands)

Grant <u>Year</u>	Grant <u>Amount</u>	Draws through SFY <u>2008</u>	<u>2009 Draws</u>	Draws through SFY <u>2009</u>	Available SFY <u>2009</u>
1989-1991	\$70,278	\$70,278	\$0	\$70,278	\$0
1992	33,789	33,789	0	33,789	0
1993	33,425	33,425	0	33,425	0
1994	20,740	20,740	0	20,740	0
1995	21,420	21,420	0	21,420	0
1996	22,509	22,509	0	22,509	0
1997	23,415	23,415	0	23,415	0
1998	23,417	23,417	0	23,417	0
1999	46,759	46,759	0	46,759	0
2001	23,132	23,132	0	23,132	0
2002	23,184	23,184	0	23,184	0
2003	23,033	23,033	0	23,033	0
2004	23,047	23,047	0	23,047	0
2005	18,739	8,708	10,031	18,739	0
2006	26,347	0	12,013	12,013	14,334
2007	19,410	0	0	0	19,410
2008	11,834	0	0	0	11,834
2008(ARRA)	68,152	0	291	291	67,861
	<u>\$532,630</u>	<u>\$396,856</u>	<u>\$22,334</u>	<u>\$419,191</u>	<u>\$113,440</u>

As of SFY 2009, State matching contributions were:

	<u>SFY 2008</u>	<u>2009 Contribution</u>	<u>SFY 2009</u>
Washington State Matching Contributions	<u>\$79,366</u>	<u>\$4,360</u>	<u>\$83,726</u>

5. **Contingencies and Subsequent Events**

Contingencies

The Account is exposed to various risks of loss, related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Account business, or acts of God.

The Account maintains insurance for all risks of loss which is included in the indirect costs allocated to the Account. There have not been any claims against the Account since its inception in 1989 and no contingencies came to our attention during our audit which requires disclosure or accrual under Statement of Financial Accounting Standards No. 5.

Subsequent Events

No events occurring subsequent to the balance sheet date came to our attention which requires adjustment to, or disclosure in, the financial statements.

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
Exhibit 7 - SRF Project Environmental Benefits Reporting

CWSRF Benefits Reporting - Loan List Report for the Period: 7/2008 - 6/2009

Borrower	Loan Number	Loan Amount	Loan	Execution Date
Alderwood Water and Wastewater District	L0900006	\$9,015,745.00		12/11/2008
Blaine, City of	L0900002	\$1,300,000.00		10/28/2008
King County Dept. of Nat. Resources and Parks	L0900001	\$11,065,940.00		10/26/2008
Lake Stevens Sewer District	L0900004	\$25,970,567.00		12/12/2008
Ritzville, City of	L0900003	\$3,500,000.00		10/30/2008
Spokane County Conservation Dist.	L0900005	\$5,000,000.00		02/13/2009
Total Loan Amount for the Period: (7/2008 - 6/2009)			\$55,852,252.00	

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 8 - 4% Administration Allowance

Grant #	Federal Award	Admin Max 4%	Spent through SFY09	Balance Remaining SFY09
CS-530001-89	17,372,811.00	694,912.44	694,912.44	0.00
CS-530001-90	17,032,749.00	681,309.96	681,309.96	0.00
CS-530001-91	35,872,484.00	1,434,899.36	1,434,899.36	0.00
CS-530001-92	33,789,195.00	1,351,567.80	1,351,567.80	0.00
CS-530001-93	33,425,073.00	1,337,002.92	1,337,002.92	0.00
CS-530001-94	20,739,807.00	829,592.28	829,592.28	0.00
CS-530001-95	21,419,838.00	856,793.52	856,793.52	0.00
CS-530001-96	22,509,234.00	900,369.36	900,369.36	0.00
CS-530001-97	23,415,183.00	936,607.32	936,607.32	0.00
CS-530001-98	23,417,163.00	936,686.52	936,686.52	0.00
CS-530001-99	46,758,888.00	1,870,355.52	1,870,355.52	0.00
CS-530001-01	23,132,241.00	925,289.64	925,289.64	0.00
CS-530001-02	23,183,820.00	927,352.80	927,352.80	0.00
CS-530001-03	23,033,142.00	921,325.68	921,325.68	0.00
CS-530001-04	23,047,002.00	921,880.08	921,880.08	0.00
CS-530001-05	18,739,413.00	749,576.52	749,576.52	0.00
CS-530001-06	26,346,877.00	1,053,875.08	1,053,875.08	0.00
CS-530001-07	19,409,541.00	776,381.64	133,172.83	643,208.81
CS-530001-08	11,833,668.00	473,346.72	0.00	473,346.72
*2W-96091001	68,151,900.00	2,726,076.00	291,155.63	2,434,920.37
Grand Total	532,630,029.00	21,305,201.16	17,753,725.26	3,551,475.90

4% of Total Federal = ADMIN CAP

*The American Recovery and Reinvestment Act of 2009 started October 1, 2008 (SFY09).

The accompanying notes are an integral part of the financial statements