



Annual Report

Washington State Clean Water Pollution Control Revolving Fund (REVOLVING FUND)

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

For State Fiscal Year 2010
July 1, 2009 - June 30, 2010

Submitted to the
U.S. Environmental Protection Agency



DEPARTMENT OF
ECOLOGY
State of Washington

January 25, 2011
Publication no. 11-10-011

Publication and Contact Information

This report is available on the Department of Ecology's website at <http://www.ecy.wa.gov/biblio/1110011.html>

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Washington State Clean Water Pollution Control Revolving Fund (REVOLVING FUND)

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

*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 Control Revolving Fund (REVOLVING FUND).

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

The REVOLVING FUND program underwent significant changes in State Fiscal Year (SFY) 2010 primarily due to new requirements imposed under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act was enacted on February 17, 2009, and was intended to stabilize the economy through job creations. The REVOLVING FUND was one of many mechanisms used by Congress to implement the Recovery Act. Congress utilized the REVOLVING FUND to create jobs through funding water quality infrastructure projects consistent with the Clean Water Act (CWA).

Of the \$4 billion congressional appropriation under the Recovery Act for clean water state revolving loan programs nationwide, Washington State received approximately \$68 million with the requirement to pass the funding through to local governments for high-priority water quality projects that would also create jobs.

The Recovery Act capitalization Grant (Recovery Act Funds) was awarded to the State as a Federal Fiscal Year (FFY) 2009 capitalization grant, which correlates to the SFY10 funding cycle. Ecology set aside four percent of Recovery Funds for administration expenses as allowed by the CWA. Binding commitments with local governments were made for the remainder of Recovery Act funds in SFY10. See Table 1 on the following page.

Ecology adopted a series of emergency rules to respond to the Recovery Act and changes in the federal Appropriations Act of 2010; both of which impacted SFY10. Ecology entered permanent rulemaking on August 19, 2010, but will likely adopt two additional emergency rules in the interim to provide continuity to clients and stakeholders during the development phase of the permanent rule. The Recovery Act and emergency rules are discussed further in the Program Changes and Development chapter of this report.

The REVOLVING FUND is capitalized with annual capitalization grants from the EPA and the required 20 percent State match. A state match was not required for Recovery Act Funds. The State retains four percent of each capitalization grant for administration expenses as allowed by the CWA.

The majority of the REVOLVING FUND portfolio consists of principal and interest repayments which have revolved in the fund since 1990. Principal and interest repayments are re-loaned to eligible public bodies each year along with the associated capitalization grant and accrued interest earned in the State Treasury.

This report discusses how the State administered the REVOLVING FUND FFY09 capitalization grant, state match, interest earned by the State Treasury and principal and interest repayments during the SFY10. This report also discusses how Ecology implemented the Recovery Act during SFY10.

Table 1 shows cumulative state match, administration allowances, and one-time funding infusions since the program’s inception. Minor discrepancies in dollar values are due to rounding.

Table 1 – REVOLVING FUND Capitalization Grant and State Match SFY90 through SFY10.

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
2010	\$11,833,668	\$68,151,900		\$2,366,734	(\$3,199,423)	\$76,786,145
2011	\$35,433,000			\$7,086,600	(\$1,417,320)	\$42,519,600
Total	\$510,444,406	\$68,151,900	\$13,134,060	\$102,347,961	(\$26,395,293)	\$738,626,837

* 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 and Reinvestment Act of 2009. State match is not required.

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

Ecology often responds to Congressional and Legislative directives that can have a significant domino effect on the day-to-day management of the REVOLVING FUND. Ecology successfully manages this effect through implementing flexible program business practices that

are consistent with the CWA and state and federal requirements. The program is also subject to regular state and federal audits.

Washington State has a Biennial Budget 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 Budget, 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 appropriated funds. This is why the FFY09 capitalization grant is administered in the SFY10 funding cycle, which ran from July 1, 2009 - June 30, 2010.

Ecology updates its interest rates annually per Chapter 173.98 WAC, Uses and Limitations of the Water Pollution Control Revolving Fund. The interest rates are based on a percent of the interest rate for tax-exempt municipal bonds as published by the Federal Reserve.

For SFY10:

- The interest rate for a five year loan is 1.5 percent (30 percent of tax-exempt municipal bonds)
- The interest rate for a 20 year loan is 2.9 percent (60 percent of tax-exempt municipal bonds)

Ecology received 198 applications from local governments during the SFY09 funding cycle and also had one prior good-faith-funding commitment (Spokane County Regional Wastewater Reclamation Facility). Thirty two projects were funded in SFY10. Funding for seven of the projects was either declined by the applicant or terminated by Ecology after the issuance of the SFY10 Final Intended Use Plan (IUP).

Table 2 is a comparison of projects, in priority order, that Ecology included in the Final SFY10 IUP and those actually funded at the close of SFY10.

On June 25, 2010, Ecology provided a written, official “binding commitment” under the SFY10 IUP to Spokane County for the Spokane Regional Wastewater Reclamation Facility. At the time of the publication of this report, a funding agreement has not been signed. The project was delayed pending the outcome of the Total Maximum Daily Load (TMDL) study and the issuance of an EPA determination on the Endangered Species Act (ESA). While these two issues were recently resolved, the County sold Buy American Bonds in the meantime. On January 18, 2011, Spokane County sent Ecology a letter officially declining all REVOLVING FUNDS for this project. Ecology will obligate the unused Spokane County dollars for other eligible projects on the SFY11 IUP.

During the course of negotiating and developing funding agreements for awards identified on the SFY10 IUP, Ecology was informed by a few proposed funding recipients that projects could either not to move forward, not utilize the entire offer amount, or the project was not affordable for the community at that point in time. All Recovery Act funds were that were turned down

were awarded to other projects. Also, the entire capitalization grant was also used for projects. Any amounts carried forward to SFY10 are comprised of principal and interest repayments. For example:

- Whatcom County (On-Site Repair Loan Program) was offered Recovery Act funding but the County could not meet the February 17, 2010, contracting deadline requirement, so funds were turned down.
- City of Westport (Energy Efficiency, Headworks, and Solids Handling) was offered Recovery Act but the city could not meet the February 17, 2010 contracting deadline requirement, so funds were turned down.
- Kittitas County Public Health (Wilson Creek Sub-Basin Septic System Project) was offered Recovery Act funds but the County could not meet the February 17, 2010, contracting deadline requirement, so funds were turned down.
- City of Bremerton (Bremerton Stormwater Retrofit/Low Impact Development Project) was offered non-Recovery Act REVOLVING FUNDS but the city determined it did not have the financial capability to take on the debt and turned down the funding.
- City of Spokane (Lincoln Street Surge) was offered non-Recovery Act REVOLVING FUNDS but the City had procured other funding for the project and thus turned down the funding offer.
- Pierce County (Integrated Water Resource Management) was offered non-Recovery Act REVOLVING FUNDS, but the County did not follow through on completing the loan agreement and the funding offer was terminated by Ecology.
- The remainder of funds carried forward from the SFY10 IUP to the SFY11 IUP resulted from various funding decreases and increases amongst other projects on the list. For example, while the cost of some projects went down others had cost increases. The net difference of all funding changes is noted at the bottom of Table 2, which shows that \$7,270,450 was moved to the SFY11 IUP.

Ecology evaluated the use of these declined funds on other projects on the SFY 2010 IUP, but based on timing, project priorities, and other priority workload with Recovery Act projects, Ecology decided to apply these funds to the next annual funding cycle for SFY11.

In an effort to get such funds into projects faster, Ecology has updated its procedure to award any declined or deobligated funds to priority projects on a rolling basis as funds are made available that can meet a priority project need on the active IUP.

Table 2 – Actual Projects Funded Compared to the Final IUP & Project Types (REVOLVING FUND indicated as SRF in report tables)

Name	Project Title	Project Type	Original IUP Offer	SRF Loan (Actual)	Recovery Act Standard Loan (Actual)	Recovery Act Forgivable Principal (Actual)	Total Funded (Actual)	Difference (negative # indicates amount applicant did not use)
Spokane County	Regional Water Rec. Facility	Facility	\$16,225,000	\$16,225,000	\$0	\$0	\$16,225,000	\$0
Airway Heights, City of	Water Rec.& Recharge Project	Recovery Act Hardship Facility	\$23,141,325	\$166,707	\$9,328,526	\$13,646,092	\$23,141,325	\$0
Bremerton Public Works and Utilities	Gorst Sewerage Project	Recovery Act Hardship Facility - Step 4: Design & Construction (Design Only Portion)	\$568,350	\$568,350	\$0	\$0	\$568,350	\$0
Bremerton Public Works and Utilities	Gorst Sewerage Project	Recovery Act Hardship Facility - Step 4: Design & Construction: (Construction Only Portion)	\$4,141,200	\$0	\$663,251	\$4,863,840	\$5,527,091	\$1,385,891
Skykomish, Town of	WWF: Phase 2A Sewer System	Facility	\$750,000	\$750,000	\$0	\$0	\$750,000	\$0
Pierce County	Septic Repair Grant and Loan Project	Activity	\$500,000	\$500,000	\$0	\$0	\$500,000	\$0
Bremerton Public Works and Utilities	Gorst Septic System Replmnt. Project	Hardship Facility - Step 4: Design & Construction (Design Only Portion)	\$110,000	\$110,000	\$0	\$0	\$110,000	\$0
Bremerton Public Works and Utilities	Gorst Septic System Replacement Project	Recovery Act Hardship Facility - Step 4: Design & Construction: (Construction Only Portion)	\$1,283,000	\$0.00	\$0	\$1,349,306	\$1,349,306	\$66,306

Raymond, City of and City of South Bend	Willapa Regional Wastewater Facilities	Recovery Act Hardship Facility	\$1,618,500	\$2,086,705	\$0	-	\$2,086,705	\$468,206
Raymond, City of and City of South Bend	Willapa Regional Wastewater Facilities	Recovery Act Hardship Facility	\$2,531,500	-	\$0	\$3,263,821	\$3,263,821	\$732,321
Wilbur, Town of	Wastewater Treatment Project	Centennial /SRF Hardship Facility - Step 4: Design & Construction	\$1,876,901	\$1,876,901	\$0	\$0	\$1,876,901	\$0
Sequim, City of	Water Reclamation Facility Upgrade & Expansion	Facility	\$5,540,000	\$5,540,000	\$0	\$0	\$5,540,000	\$0
Uniontown, Town of	Wastewater Treatment Plant Upgrade	Recovery Act Hardship Facility - Step 4: Design & Construction	\$2,740,700	\$216,726	\$0	\$2,081,405	\$2,298,131	(\$442,569)
Rock Island, City of	Rock Island Wastewater Treatment Facility	Recovery Act Hardship Facility	\$5,242,000	\$1,215,533	\$0	\$2,257,418	\$3,472,951	(\$1,769,049)
Olympia, City of	Enhanced Water Quality Treatment of Stormwater Runoff at Yauger Park	Recovery Act Green Activity	\$3,670,000	\$0	\$1,214,017	\$1,214,017	\$2,428,034	(\$1,241,966)
Kittitas County Water District #6	Vantage Sewer Lift Station	Centennial /SRF Hardship Facility - Step 4: Design & Construction	\$357,044	\$205,744	\$0	\$0	\$205,744	(\$151,300)
Shelton, City of	Goldsborough Creek Sanitary Sewer Imp.	Facility	\$1,321,210	\$1,321,210	\$0	\$0	\$1,321,210	\$0
Arlington, City of	Wastewater Treatment Plant Upgrade and Expansion	Recovery Act Facility	\$15,007,660	\$9,467,660	\$5,090,259	\$449,741	\$15,007,660	\$0
Everett Public Works	Bond Street Combined Sewer Overflow	Facility	\$6,249,652	\$6,249,652	\$0	\$0	\$6,249,652	\$0

Cowlitz County	Ryderwood Infiltration and Inflow Removal	Recovery Act Hardship Facility - Step 4: Design & Construction	\$2,965,000	\$0	\$223,157	\$639,470	\$862,627	(\$2,102,373)
Kittitas, City of	WWTF Imp.	Recovery Act Hardship Facility - Step 4: Design & Construction	\$742,235	\$0	\$241,824	\$130,212	\$372,036	(\$370,199)
Mason County	Belfair Wastewater & Water Recl.	Recovery Act Hardship Facility	\$5,891,886	\$0	\$3,897,293	\$5,716,829	\$9,614,122	\$3,722,236
Island County	On-Site Repair Financial Assistance Program		\$300,000	\$300,000	\$0	\$0	\$300,000	\$0
Vancouver, City of	Burnt Bridge Creek Greenway Expansion and Riparian Restoration Project	Activity	\$1,100,000	\$1,100,000	\$0	\$0	\$1,100,000	\$0
Whatcom County	Whatcom County On-Site Repair Loan Program	Activity	\$1,250,000	\$0	\$0	\$0	\$0	(\$1,250,000)
Clark County	Upper Whipple Creek Habitat Prot. Enhance Control Stormwater	Recovery Act Green Activity	\$852,578	\$0	\$371,710	\$371,710	\$743,420	(\$109,158)
LOTT Alliance	Deschutes Parkway to Tumwater Reclaimed Water Pipeline Project	Recovery Act Green Facility - Step 4: Design & Construction	\$2,763,000	\$0	\$1,074,398	\$1,074,398	\$2,148,796	(\$614,204)
*Westport, City of	Energy Efficiency, Headworks, and Solids Handling		\$596,000	\$0	\$0	\$0	\$0	(\$596,000)
Tacoma, City of	City of Tacoma Stormwater Treatment Retrofit Project	Recovery Act Green Activity	\$1,854,450	\$0.00	\$609,978	\$609,978	\$1,219,956	(\$634,494)
Kittitas County Public Health Department	Wilson Creek Sub-Basin Septic System Project	Recovery Act Green Activity	\$496,500	\$0	\$0	\$0	\$0	(\$496,500)

Richland, City of	WWTP Aeration Basin Energy Improvements	Recovery Act Green Facility	\$1,847,852	\$0	\$1,524,652	\$1,524,652	\$3,049,304	\$1,201,452
Seattle Public Utilities	Ballard Green Streets	Recovery Act Green Activity	\$1,546,524	\$0	\$697,309	\$697,309	\$1,394,618	(\$151,906)
Spokane, City of	West Broadway SURGE	Recovery Act Green Activity	\$382,000	\$0	\$299,626	\$299,626	\$599,252	\$217,252
Skagit County Planning and Development Services	Skagit County Local Loan Fund	Activity	\$2,000,000	\$1,750,000	\$0	\$0	\$1,750,000	(\$250,000)
*Bremerton, City of	Bremerton Stormwater Retrofit/Low Impact Development Project	Activity	\$1,303,456	\$0	\$0	\$0	\$0	(\$1,303,456)
Yakima, City of	Lincoln Avenue Grade Separation Storm Drainage	SRF Activity	\$1,214,000	\$1,214,000	\$0	\$0	\$1,214,000	\$0
*Spokane County	Lincoln Street SURGE	SRF Activity	\$1,173,000	\$0	\$0	\$0	\$0	(\$1,173,000)
*Bremerton, Port of	Kitsap Sustainable Energy & Economic Dev. (SEED)	Activity	\$1,498,972	\$0	\$0	\$0	\$0	(\$1,498,972)
*Pierce County	Pierce County Integrated Water Resource Mgmt.	Activity	\$908,978	\$0	\$0	\$0	\$0	(\$908,978)
		Total	\$123,560,473	\$50,864,188	\$25,236,000	\$40,189,824		(\$7,270,460)

Davis-Bacon:

On December 2, 2010, during a routine phone conference with Michelle Tucker at the EPA, it was brought to Ecology's attention that an attachment detailing the Davis-Bacon wage rate requirement was supposed to have been included in the Recovery Act capitalization grant amendment, dated December 7, 2009. The Davis-Bacon attachment was required to be included in construction contracts between Ecology's loan recipients (subrecipients) and their contractors. Ecology did not receive the attachment from the EPA and the omission of the attachment went unnoticed.

Although Ecology was unaware of the EPA Davis Bacon capitalization grant attachment, Ecology was aware of the need to require more prescribed Davis Bacon language in construction contracts, and independently developed an insert that clearly summarized the major requirements of the Davis-Bacon Act and required the language be inserted into construction contracts. However, when Ecology learned of the missing-EPA attachment, immediate action was taken to request change orders to all applicable Recovery Act construction contracts to incorporate the required language.

Of the 17 Recovery Act projects, Ecology's progress toward executing change orders to incorporate the exact language required by the EPA follows:

- 5 are complete (change order executed, a copy of the executed change is in Ecology files)
- 6 are making good progress
- 4 have shown little or no progress
- 2 have issues (progress was being made, but some issue is actively preventing forward progress)

Of the 8 Base non Recovery Act projects, our progress toward executing change orders to incorporate the exact language required by the EPA follows:

- 2 agreements were signed prior to October 31, 2009 and did not require Davis-Bacon wages be paid.
- 6 are making good progress

Ecology has monitored Recovery Act projects closely and has no cause to believe that any problems exist with Davis-Bacon compliance. The problem is that the contract boilerplate language is not sufficient.

Contracts and Grants Payable Systems:

The grant, contract, loan management system (GCLM) project started in 2005 when the Departments of Ecology and Community, Trade and Economic Development requested authorization to develop a new information management system. Instead of developing multiple systems, it was decided the Governor's 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.
- Avoided costs for duplicated systems at each agency over time.

In October of 2007, at the direction of the legislature, the Office of the State Treasurer transferred \$239,000 in cash from the REVOLVING FUND (account 727) to the newly created Information Technology Pool as part of Ecology's contribution to the overall project.

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 would meet 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 was that the original scope was too broad and proved unachievable by the selected contractor. At that time, it was anticipated that a portion of Ecology's unspent investment in the project would be returned to the account.

In April 2010, the Washington State Legislature approved a supplemental budget that transferred the fund balance of the Information Technology Pool into the General Fund. This eliminated the anticipated refund to the SRF account. Ecology management made the decision to make the REVOLVING FUND whole using agency funds. In September of 2010, Ecology transferred \$259,897.27 from state funds to the REVOLVING FUND in order to replace the non-administrative funds initially used. This amount includes \$239,000 for the original Office of the State Treasurer transfer for the GCLM Project plus \$20,897.27 in earned interest.

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Introduction

This report covers the SFY10 funding cycle that ended on June 30, 2010, which is approximately six months before the issuance of this report. The REVOLVING FUND program underwent significant changes in SFY10 primarily due to new requirements imposed under the American Recovery and Reinvestment Act of 2009. The Recovery Act was enacted on February 17, 2009, and was intended to stabilize the economy through job creations. The REVOLVING FUND was one of many mechanisms used by Congress to implement the Recovery Act. Congress utilized the REVOLVING FUND to create jobs through funding water quality infrastructure projects consistent with the Clean Water Act.

Of the \$4 billion national congressional appropriations under the Recovery Act for the clean water state revolving loan programs, Washington State received approximately \$65.4 million as a Federal Fiscal Year 2009 (FFY09) capitalization grant, with the requirement for Ecology to pass the funding through to local governments for high-priority water quality projects.

At the time the Recovery Act grant was awarded, Ecology had already concluded its annual funding cycle application submittal period for the capitalization grant previously awarded by the EPA for FFY09. To implement the Recovery Act, Ecology reopened its application cycle from February 18, 2009, and closed it again on March 13, 2009. The first application cycle, held from September 1 2009, through October 31, 2009, yielded approximately \$249 million in loan requests. The Recovery Act application cycle yielded approximately \$423 million in loan requests. The total number of funding proposals received was 198 and exceeded \$671 million in need work water quality projects, leaving an unmet demand of approximately \$546 million.

Washington State received two FFY09 capitalization grants, which were administered in SFY10. One capitalization grant was to implement the Recovery Act, totaling \$68,151,900. The other capitalization grant was for the REVOLVING FUND, totaling \$11,833,668.

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 SFY10. The Account was created to manage the REVOLVING FUND. This report also reflects program developments undertaken to implement Recovery Act.

The REVOLVING FUND is a key funding source used to advance the water quality goals of EPA and Ecology's Water Quality Program (Program). The goal of the Program and the REVOLVING FUND 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, 319, and 320 of the Clean Water Act (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 REVOLVING FUND continues to grow in dollars and complexity. The long-term health of the REVOLVING FUND is strong despite market challenges that negatively affected the public and private sectors. The flexible structure and overall strategy of the REVOLVING FUND

enables fund managers to respond to emerging needs of local governments and tribes, as well as legislative directives. This was evidenced in the REVOLVING FUND and Water Quality Program's ability to respond to multiple new demands resulting from the implementation of the Recovery Act.

Ecology manages the REVOLVING FUND in coordination 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 REVOLVING FUND clients and stakeholders. This provides significant program savings and staff efficiencies.

The overall programmatic and financial management of the REVOLVING FUND is conducted from Ecology's Headquarters Office in Lacey, including policy, rules, program guidance, funding decisions, and long-term strategic planning. 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.

For SFY 2010 interest rates were established at 1.5 percent for up to a five year-term and 2.9 percent for loans with more than a five-year term, but no more than 20 years.

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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 REVOLVING FUND for the State Fiscal Year (SFY) 2010, ending June 30, 2010, and is intended to supplement these financial statements. Ecology's REVOLVING FUND 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 REVOLVING FUND 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 capitalization grant from EPA. The SFY10 grant was \$11,833,668. Ecology matches 20 Percent of the capitalization grant award with state funds, or \$2,366,734 for SFY10. These funds, combined with repayments on existing loans and investment income, totaled over \$37,482,949 for SFY10. REVOLVING FUND loan interest rates are between zero and 2.9 percent.

Net Assets of the REVOLVING FUND

The REVOLVING FUND has no capital assets and no related debt. The total amount of reported net assets as of June 30, 2010, is \$673,118,128.

Income for Fiscal Year 2010

Net operating income of the REVOLVING FUND for SFY10 was \$8,461,076. Operating income or loss 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 fiscal year 2009 was \$7,230,953.

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 capitalization grant match by the state of Washington. In SFY10 the amount of federal funds earned was \$40,261,921 and the amount of state matching funds received during the year was \$3,611,019.

Changes in Cash Position

During SFY10 the REVOLVING FUND cash balance increased by \$6,228,796, as can be seen on the Statement of Cash Flows. Total loan repayments, including principal and interest received from borrowers was \$42,139,161. Interest credited to the REVOLVING FUND Account from the State Treasurer's Office totaled \$728,193. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$1,802,966. Cash received from the EPA capitalization grant funds totaled \$40,660,446, and matching funds provided by the state of Washington totaled \$3,584,881. While cash increased from SFY09 to SFY10, Ecology would hope to see cash continue to increase as we award more loans for priority water quality projects throughout the state in SFY11.

Business Decisions Affecting the REVOLVING FUND Program

Ecology implemented a new rule for the SFY09 funding cycle that sets interest rates for hardship projects according to a sliding scale. Through the adoption of a new sliding scale for interest rates, the new interest rate structure will help reduce complexity and ensure perpetuity of the REVOLVING FUND. This is achieved by charging interest rates to those communities that can afford some level of interest but may have otherwise received a zero percent interest rate under the old hardship structure. See page 31 (Table 6a - Loan Hardship-Funding Continuum (REVOLVING FUND loans) for more information on how the new interest rate structure is used to determine interest rates for hardship construction projects. 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 REVOLVING FUND loans will remain affordable compared to banks and municipal bonds.

State Matching Funds

For SFY10, State matching funds were made available through the Washington State General Fund. Revenue from this account is derived from a variety of state taxes and transfers.

Recovery Act Clean Water State Revolving Fund

The Recovery Act was created to stabilize the economy through job creation, provide investments needed to increase economic efficiency by spurring technological advances in science and health, and invest in infrastructure that will provide long term economic benefits.

Ecology was appropriated funds under the Recovery Act. EPA awarded a capitalization grant from the Recovery Act for FFY09, totaling \$68,151,900. Of this amount, \$65,425,824 of Recovery Act Funds was available for projects and \$2,726,076 was available to administer the

program. All of the Recovery Act funds were awarded in SFY10. As of June 30, 2010, 100 percent of the funds were under construction.

Conclusion

This MD&A is intended to provide a summary of the financial condition of the REVOLVING FUND program and should be read in conjunction with the remainder of 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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Goals and Progress (Short & Long Term)

Short-Term Goals

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 internal coordination between Ecology funding programs, permitting, and fiscal office, and external coordination between Ecology and state and federal agencies.

The primary goal of the REVOLVING FUND program is to protect public health and water quality and achieve overall improvement and protection of the environment. This is achieved through effective coordination with advisory groups and major state, federal, and local stakeholders and clients to identify major environmental threats and trends. Information gathered through wide coordination efforts directly informs the development of key program guidance and funding application materials. In turn, Ecology expects public bodies to develop and implement projects that prevent water quality degradation, including wetland protection projects.

This section provides an update for short and long term goals that were included in the SFY10 IUP. Because many of the goals are interrelated, they have been combined where possible to better provide a cohesive statement.

Short Term Goals:

1. Continue to work with Ecology's Water Quality Financial Assistance Advisory Council (FAC) for critical input on the development of environmental benefits, performance measures, hardship criteria, rulemaking, and credit worthiness assessments.

- **Progress (also includes response to long-term goal No. 1)**

In SFY10 Ecology convened three Financial Assistance Council (FAC) meetings on the following dates:

- February 17, 2010
- May 19, 2010
- November 18, 2009

Ecology actively seeks input from its FAC and uses that information as a springboard for many REVOLVING FUND program decisions. Ecology brought several important topics to the FAC in SFY10, and also invited various outside experts to discuss existing and emerging environmental issues including:

- Regular budget updates and legislative session overview
- Ongoing Recovery Act implementation issues
- Puget Sound Partnership updates

- Industrial funding policy
- Stormwater Capital and Operating Budget funding programs
- State Environmental Review Procedure, federal crosscutter overviews
- Updates from other agencies (Washington State Conservation Commission, EPA, U.S. Rural Development, Washington State Department of Commerce)
- Funding Cycle updates and project proposal evaluation process
- Greenhouse gas emissions policy
- Rulemaking efforts

2. Continue to maximize limited state and federal grant and loan programs by integrating the REVOLVING FUND with the Centennial Clean Water Program (Centennial), the federal Clean Water Act Section 319 Nonpoint Source Program (Section 319), and other state programs managed by Ecology, such as the Stormwater Grant Program.

- **Progress (also includes response to long-term goal No. 1):**

Ecology’s ability to integrate the REVOLVING FUND with other major funding programs is evidenced in its success at integrating the REVOLVING FUND with the Centennial and Section 319 programs, developing and implementing business practices as a result of multi-funding-program outreach efforts, and integrating the Recovery Act into its existing REVOLVING FUND structure.

Ecology began to merge the REVOLVING FUND and Centennial programs in 1995 by managing the funding cycles concurrently. In 1997, Ecology integrated the Section 319, REVOLVING FUND and the Centennial funding cycles. On June 29, 2007, Ecology’s Director adopted updated rules that govern the REVOLVING FUND program, which became effective starting SFY09.

In 2009, Ecology received approximately \$68 million under the Recovery Act which was to be administered through the existing structure of the REVOLVING FUND. However, the U.S. Congress set special stipulations on Recovery Funds that were not consistent with the existing REVOLVING FUND rule. Ecology integrated Recovery Funds into its existing program through the emergency rulemaking process, which is discussed later in this report. Ecology continues to implement the Recovery Act and new requirements under the SFY10 Federal Appropriations Act through a series of emergency rules. On August 19, 2010, Ecology entered permanent rulemaking again and expects completion by August 2011.

In the 2009-11 Capital Budget, the state Legislature directed Ecology to accommodate programmatic changes related to its application criteria and funding cycle timeline for the Centennial Program. 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. Program changes are discussed in the “Program Development” section of this report.

When possible, Ecology continues to integrate its major water quality funding programs, including, but not limited to:

- One combined funding offer list (integrated in SFY11).

- The coordination, development, and implementation of funding program rules (see page 34 for more information on rules)
- The use of one application and application cycle, and guidance document.
- Continued, flexible funding offers for financially-distressed communities.
- REVOLVING FUND loans and Centennial grants used in conjunction for on-site septic repair and replacement local loan programs.
- Additional stormwater loan interest rates subsidies and Centennial grants for hardship-stormwater projects.

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

3. Ensure the base REVOLVING FUND is sustainable for future projects.

- **Progress:**

Ecology continually evaluates its interest rate structure with the goal of balancing the need to provide continued funding for future water quality projects and provide additional subsidies for financially-distressed communities.

Ecology monitors the REVOLVING FUND program interest rates for upward or downward annual trends to ensure that the REVOLVING FUND 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 SFY10 funding cycle, the weighted, average interest rate for new projects was 2.33 percent and the total portfolio weighted, average interest rate was 1.99 percent. The weighted interest rate for the portfolio in SFY09 was 1.96 percent. The weighted interest trend is up from SFY09.

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.

Table 3 – Estimated Distribution of Loans by Interest Rate (Cumulative)

Loan Interest Rate	Assistance Amount	Percent of Total Portfolio
Total \$ 0.0% Loans	\$256,631,078	24.5340%
Total \$ 0.5% Loans	\$23,440,406	2.2409%
Total \$ 0.6% Loans	\$9,495,233	0.9077%
Total \$ 1.0% Loans	\$223,157	0.0213%
Total \$ 1.1% Loans	\$2,303,431	0.2202%
Total \$ 1.3% Loans	\$533,000	0.0510%
Total \$ 1.4% Loans	\$3,108,502	0.2972%
Total \$ 1.5% Loans	\$313,512,836	29.9720%
Total \$ 1.8% Loans	\$2,515,533	0.2405%
Total \$ 2.0% Loans	\$6,824,166	0.6524%
Total \$ 2.1% Loans	\$5,540,000	0.5296%
Total \$ 2.2%	\$241,824	0.0231%
Total \$ 2.5 %	\$205,744	0.0197%
Total \$ 2.6% Loans	\$52,244,904	4.9946%
Total \$ 2.7% Loans	\$51,052,252	4.8806%
Total \$ 2.8%	\$3,897,293	0.3726%
Total \$ 2.9	\$49,569,471	4.7389%
Total \$ 3.1% Loans	\$40,850,059	3.9053%
Total \$ 3.2% Loans	\$320,635	0.0307%
Total \$ 3.5% Loans	\$29,060,736	2.7782%
Total \$ 3.8% Loans	\$102,723	0.0098%
Total \$ 4.0% Loans	\$7,998,767	0.7647%
Total \$ 4.1% Loans	\$31,084,083	2.9717%
Total \$ 4.3% Loans	\$17,588,838	1.6815%
Total \$ 4.4% Loans	\$17,455,425	1.6687%
Total \$ 4.5% Loans	\$10,905,410	1.0426%
Total \$ 4.8% Loans	\$20,858,084	1.9940%
Total \$ 5.0% Loans	\$88,457,204	9.1200%
Total:	\$1,046,020,794	100%

4. Use the Recovery Fund for principal forgiveness loans for hardship construction projects and Green Project Reserves (GPR).

Progress:

The Recovery Act required that, to the extent there are sufficient eligible applications, not less than 20 percent of the Recovery Act Funds shall be for projects that qualify under the green project reserves category. Examples of these types of projects include: green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities.

The Recovery Act also required that not less than 50 percent of the amount of the Recovery Funds be used to provide additional loan subsidies to eligible public bodies in the form of forgivable principal, negative interest loans, or grants, or any combination of these. Ecology provided principal forgiveness to meet this requirement.

Table 4a illustrates that Ecology successfully awarded at least 20 percent of the REVOLVING FUND capitalization grant eligible GPR. The minimum GPR funding requirement was \$7,086,600. Ecology awarded \$18,262,906 for GPR. Ecology awarded \$40,189,824 in forgivable principal, which well exceeds the minimum Recovery Act requirement, which is to award at least half of the Recovery Act capitalization grant. Of that amount, \$34,398,134 was for hardship-community-construction projects as demonstrated in Table 4b below.

Table 4a – Green Project Reserves Funded (REVOLVING FUND noted as SRF in report tables)

ECY Region	Applicant Name	Project Title	Project Category (Facility/Activity)	CWSRF Funds Offered	Recovery Act Standard Loan Offered	Recovery Act Forgivable Principal Offered	Total Recovery Act Green Dollars Offered	Total Recovery Act Green Forgivable Principal	Special Notes:
CR	Richland, City of	WWTP Aeration Basin Energy Improvements	Recovery Act GPR	\$0.00	\$1,524,652	\$1,524,652	\$3,049,304	\$1,524,652	Energy efficiency. Needed documentation prior to EPA approval as an energy efficient GPR. No business case needed once the documentation was cut and dry
ER	Spokane, City of	West Broadway SURGE	Recovery Act GPR	\$0.00	\$299,626	\$299,626	\$599,252	\$299,626	Green infrastructure
ER	Airway Heights, City of	Water Reclamation and Recharge Project	Recovery Act Hardship Facility & GPR	\$166,707	\$9,328,526	\$13,646,092	\$7,000,000	\$3,500,000	Water Efficiency. Needed to document total funds associated with purple pipe before GPR funding allocated
NWR	Arlington, City of	Wastewater Treatment Plant Upgrade and Expansion	Recovery Act Facility & GPR	\$9,467,660	\$4,640,519	\$449,741	\$899,481	\$449,741	Water Efficiency
NWR	Seattle Public Utilities	Ballard Green Streets	Recovery Act GPR	\$0.00	\$697,309	\$697,309	\$1,394,618	\$697,309	Green Infrastructure
SWR	Clark County	Upper Whipple Creek Habitat Protection and Enhancement to Control Stormwater Runoff	Recovery Act GPR	\$0.00	\$371,710.00	\$371,710	\$743,420	\$371,710	Green Infrastructure
SWR	LOTT Alliance	Deschutes Parkway to Tumwater Reclaimed	Recovery Act GPR	\$0.00	\$1,074,398	\$1,074,398	\$2,148,796	\$1,074,398	Water Efficiency

ECY Region	Applicant Name	Project Title	Project Category (Facility/Activity)	CWSRF Funds Offered	Recovery Act Standard Loan Offered	Recovery Act Forgivable Principal Offered	Total Recovery Act Green Dollars Offered	Total Recovery Act Green Forgivable Principal	Special Notes:
		Water Pipeline Project							
SWRO	Olympia, City of	Enhanced Water Quality Treatment of Stormwater Runoff at Yauger Park	Recovery Act GPR	\$0.00	\$1,214,017	\$1,214,017	\$2,428,034	\$1,214,017	Green Infrastructure
Total Green Project Reserves							\$18,262,906	\$9,131,453	

Table 4b – Forgivable Principal; For Hardship Construction Projects.

Name	Project Title	Project Type	Original IUP Offer	SRF Loan (Actual)	Recovery Act Standard Loan (Actual)	Recovery Act Forgivable Principal (Actual)	Total Funded (Actual)
Airway Heights, City of	Water Rec.& Recharge Project	Recovery Act Hardship Facility	\$23,141,325	\$166,707	\$9,328,526	\$13,646,092	\$23,141,325
Bremerton Public Works and Utilities	Gorst Sewerage Project	Recovery Act Hardship Facility - Step 4: Design & Construction (Design Only Portion)	\$568,350	\$568,350	\$0	\$0	\$568,350
Bremerton Public Works and Utilities	Gorst Sewerage Project	Recovery Act Hardship Facility - Step 4: Design & Construction: (Construction Only Portion)	\$4,141,200	\$0	\$663,251	\$4,863,840	\$5,527,091
Bremerton Public Works and Utilities	Gorst Septic System Replacement Project	Recovery Act Hardship Facility - Step 4: Design & Construction: (Construction Only Portion)	\$1,283,000	\$0.00	\$0	\$1,349,306	\$1,349,306
Raymond, City of and City of South Bend	Willapa Regional Wastewater Facilities	Recovery Act Hardship Facility	\$1,618,500	\$2,086,705	\$0	-	\$2,086,705

Raymond, City of and City of South Bend	Willapa Regional Wastewater Facilities	Recovery Act Hardship Facility	\$2,531,500	-	\$0	\$3,263,821	\$3,263,821
Uniontown, Town of	Wastewater Treatment Plant Upgrade	Recovery Act Hardship Facility - Step 4: Design & Construction	\$2,740,700	\$216,726	\$0	\$2,081,405	\$2,298,131
Rock Island, City of	Rock Island Wastewater Treatment Facility	Recovery Act Hardship Facility	\$5,242,000	\$1,215,533	\$0	\$2,257,418	\$3,472,951
Arlington, City of	Wastewater Treatment Plant Upgrade and Expansion	Recovery Act Facility	\$15,007,660	\$9,467,660	\$5,090,259	\$449,741	\$15,007,660
Cowlitz County	Ryderwood Infiltration and Inflow Removal	Recovery Act Hardship Facility - Step 4: Design & Construction	\$2,965,000	\$0	\$223,157	\$639,470	\$862,627
Kittitas, City of	WWTF Imp.	Recovery Act Hardship Facility - Step 4: Design & Construction	\$742,235	\$0	\$241,824	\$130,212	\$372,036
Mason County	Belfair Wastewater & Water Recl.	Recovery Act Hardship Facility	\$5,891,886	\$0	\$3,897,293	\$5,716,829	\$9,614,122
					Total Hardship Forgivable Principal	\$34,398,134	

5. Strive to use 50 percent of the Recovery Fund for water quality projects before June 17, 2009. This date reflects the goal in the Recovery Act of 120 days after the enactment of the Recovery Act.

- Progress:**

While Ecology did not commit Recovery Act money to projects before June 17, 2009, it did successfully meet the Recovery Act requirement to have all projects under contract for construction and a financial assistance agreement by February 17, 2010.

6. Provide technical assistance and program education to potential loan recipients.

- Progress (Also includes response to long-term goal No 3):**

Ecology continues to administer the REVOLVING FUND program and provide technical and financial assistance to REVOLVING FUND 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. Financial and technical assistance reflect emerging trends and requirements, including Congressional and State legislative directives. Ecology often sponsors booths at conferences, and staff regularly speaks at various funding and technical assistance conferences.

To implement the Recovery Act, Ecology reopened the application funding cycle to solicit additional projects, including projects that meet the requirements under the EPA GPR category.

Funding workshops were held at the following:

Initial REVOLVING FUND Workshops	Supplemental Workshop to Implement the Recovery Act
<ul style="list-style-type: none"> • Everett Holiday Inn, September 3, 2008 • Lacey Community Center, September 4, 2008 • Spokane Red Lion River Inn, September 10, 2009 	<ul style="list-style-type: none"> • Tacoma, Pierce County Library Processing and Administrative Center, February 24, 2009

Annual recipient trainings for new and ongoing project management were held in two locations across the state:

- Moses Lake Big Bend Community College: July 20, 2010
- Lacey Community Center: July 22, 2010

Public Comment Periods held for the Draft SFY10 REVOLVING FUND IUPs:

- Tacoma, Pierce County Library Processing and Administrative Center, February 3, 2009
- Tacoma, Pierce County Library Processing and Administrative Center, April 24, 2009
- A responsiveness summary to public comments was included in the Final IUP.

Ecology also provides technical assistance and program education through the coordination of outreach activities with internal and external groups, including, but not limited to:

- The Small Communities Initiative (SCI) Steering Committee meets quarterly to direct SCI resources to high priority projects.
- The Environmental Clearinghouse group meets quarterly to bring funding agencies together to coordinate and streamline environmental reviews.
- Meetings with other funding agencies and individual project applicants through funding tech teams to coordinate project specific funding strategies.
- Multiple program learning sessions for clients and stakeholders were included at the Infrastructure Assistance Coordinating Council (IACC) in October 2009.
- The Financial Engineering Workgroup meets quarterly to coordinate Ecology’s response to eligibility, procurement, project oversight, and other engineering questions.

- The Ecology activities workgroup meets quarterly to identify emerging issues and recommend solutions associated with nonpoint source pollution. The Activities workgroup directly informs the decision making on the Section 319 and Centennial grant program, and indirectly for the REVOLVING FUND program.
- Ecology staff 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/Cycles/FCmain.html>

7. Continue working with the EPA to implement the base REVOLVING FUND and Recovery Fund in developing the SFY11 IUP and capitalization grant agreements.

Progress:

Ecology coordinates with key EPA Region 10 staff on a regular basis and successfully developed the IUP and capitalization grant agreements.

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

Progress:

Ecology participated in the initial planning phase for this effort.

9. Assist the Governor’s Office and the EPA with Recovery Fund reporting requirements.

Progress:

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

Before certification, Ecology demonstrated that each Recovery Act project was:

- 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 environmental and 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

Ecology continues to successfully implement other reporting requirements, including:

- Quarterly Reports to federal Office of Management and Budget (OMB):
 - (April, July, Oct 2010)
 - Quarterly Reports to WA State OFM:
 - (April, July, Oct 2010)
 - Monthly reports to EPA (via CBR database):
 - (Jan through Dec 2010)
 - Monthly reports to Federal Committee on Transportation and Infrastructure:
 - (Jan through Dec 2010)
- Support for Ecology's report on the Recovery Act to the Governor's GMAP:
 - May (for June GMAP),
 - July (Follow-up on June GMAP at Governor's request),
 - August (Governor's Office request for "Other Funding" in the ARRA projects),
 - October (Update of GMAP report using latest Quarterly ARRA data for use in next Recovery Act GMAP)
- One dedicated staff member to manage the reporting requirements and attend key meetings to ensure compliance, including:
 - Office of Regulatory Assistance (ORA) sponsored meeting, Question and Answer session regarding 1512 Certification and Reporting (May 8, 2009)
 - Washington State Office of Financial Management (OFM) Sponsored Clarification Session on OMB Section 1512 Data Element Clarification for state and federal reporting of 1512 data (August 18, 2009)
 - OFM sponsored Reporting Requirement Training (September 23, 2009)
 - EPA Review of Recovery Act Under Construction and Under Contract aspects of REVOLVING FUND ARRA projects (March 15, 2010)
 - Mid-year EPA review of Recovery Act reporting, especially that entered in the EPA's CBR system (September 22, 2010)
 - Reporting to the House Committee for Transportation and Infrastructure

10. Work with the Puget Sound Partnership to ensure that project proposals identified for funding advance the goals of the Governor's Puget Sound Initiative.

Progress (also see short term goal No. 2 of this section and long-term goal No. 8 of next section):

Ecology performed an annual review and 'revamp' of the SFY10 application prior to its availability to the public. Ecology staff met, at least two times, directly with Puget Sound Partnership staff to solicit input on project proposals related to Section 320 of the Clean Water Act. Input was received from the Puget Sound Partnership as well as internal Ecology regional experts. All comments from internal and external stakeholders were considered and incorporated into the SFY10 application. More than half (appx. \$60 million) of the available REVOLVING FUND for SFY10 was awarded to projects that protect the Puget Sound.

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, staff specializing in Total Maximum Daily Loads (TMDL), permitting, and the Ecology Watershed Unit. If needed other state agencies are consulted for funding recommendations as well. Table 5 shows how Ecology allocates points for water quality project proposals through its evaluation process.

Table 5 – SFY10 Application Point Allocation

Question Number	Application Questions SFY 10	Points Available
1	Scope of Work	Up to 250
2	Proposed Budget	Up to 150
3	Water Quality and Public Health Improvements	Up to 250
4	State and Federal Requirements	Up to 100
5	Project Team	Up to 50
6	Project Development and Local Support	Up to 100
7	Readiness to Proceed	Up to 50
8	Ratepayer Impact	50
	Total Points:	1000

11. Work with clients, stakeholders, and other federal and state agencies to develop an approach to manage the new federal requirements, such as the Davis-Bacon Initiative.

Progress:

Ecology attended and conducted multiple group and individual trainings to provide clients and stakeholders training to manage federal requirements, including:

- Individual (one-on-one) Recipient Training
- July 15, 2009 – Moses Lake
- July 22, 2009 - Lacey

Recovery Act Requirements Workshops – included various State agencies that were responsible for managing Recovery Act Funds. The workshops were set up in an attempt to understand federal requirements, interpret them, and strategize on how to adequately monitor compliance.

- April 9, 2009 – Recovery Act
- April 16, 2009 – Davis Bacon Requirements
- April 23, 2009 – Buy American Requirements

- April 30, 2009 – MWBE & Reporting Requirements

EPA Webinars attended include:

- May 14, 2009 – Recovery Act Handbook & Contract Training
- May 19, 2009 – Buy American Webinar
- April 8, 2010 – EPA Inspection Webcast

EPA Meetings include:

- June 17, 2009 – Meeting w/ EPA DC & Region 10 to discuss ARRA Program
- State Recovery Act Training
- August 4, 2009 – Federal Grant Management
- August 18, 2009 – Understanding Recovery Act Contracting
- August 25, 2009 – Managing Your Risks
- September 16, 2009 – Reporting
- June 30, 2010 – Davis Bacon Act Training

Fraud, Waste, & Abuse Training – Ecology in partnership with the WA State Department of Health & OIG organized trainings for the recipients:

- October 19, 2009 – Centralia
- October 20, 2009 – Mt. Vernon
- October 21, 2009 – Wenatchee
- October 22, 2009 – Spokane

Financial Engineering Workshops – internal meetings of the regional engineer/project managers-topics included:

- The Recovery Act requirements and our responsibilities to ensure these requirements are being met were discussed at these meetings on various occasions.
- The inspection checklist was updated to include the pertinent Recovery Act items.
- File checklists were developed for the Recipient, the Financial Manager, and the Project Manager as a tool to help ensure that the files contained the appropriate documentation.
- Any new guidance from EPA was passed along either in these meetings or via group emails in order to get the necessary information out to the regions.

Recovery Act Recipient Meetings:

- To discuss the various Recovery Act requirements with recipients during the agreement negotiation period.
- Pre-construction meetings or site visits to discuss the Recovery Act requirements and recipient responsibilities with regard to meeting the requirements and maintaining the appropriate documentation.

Long-term goals

1. Integrate, to the greatest extent possible, the base REVOLVING FUND with the Centennial and Section 319 funds, and other state programs to maximize limited state and federal grant and loan funds.

Progress: (See short-term goal No. 1 of previous section)

2. Provide financial assistance to communities to help them 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 short-term goal No. 2 of previous section)

Ten percent of Ecology's point allocation is to address state and federal regulations. Ecology also aggressively pursues funding nonpoint and estuary conservation projects by developing and implementing the REVOLVING FUND program to provide financial assistance to communities that propose projects that achieve the goals of the Puget Sound Partnership Action Agenda and 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 REVOLVING FUND is set aside for nonpoint source pollution projects, which may include comprehensive estuary conservation and management programs.

Ecology has reserved, through Chapter 173.98 WAC, Uses and Limitations of the Water Pollution Control Revolving Fund, 20 percent of the available REVOLVING FUND for the implementation of nonpoint source pollution control programs and the development and implementation of comprehensive estuary conservation and management programs.

3. Provide technical assistance to communities to help them comply with federal and state environmental requirements.

Progress: (See short-term goal No. 6 of previous section).

4. Protect public health and water quality to achieve overall improvement and protection of the environment.

Progress: (See short-term goal No. 2 of previous section)

5. Encourage public bodies to develop and implement projects that will prevent water quality degradation, including wetland protection projects.

Progress: (See all other short and long term goals)

6. Offer financial assistance to communities with financial barriers that have a negative impact on their financial ability to meet required public health and water quality standards.

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, lowering the interest rate to zero percent, or offering some level of forgivable principal for Recovery Act projects. Ecology also offers separate Centennial grants for hardship construction projects.

The minimum threshold for all hardship projects is when a sewer user rate is 2.0 percent or higher of the applicable Median Household Income for the project area. Ecology adopted an emergency rule to lower the hardship threshold for “severe hardship” for construction projects under the Recovery Act as illustrated in Tables 6a and 6b below. The new, lower hardship threshold in the “severe hardship” category only applies to the amount of principal forgiveness a recipient may receive. The shaded areas in the loan hardship continuums below represent the differences in the continuum used for principal forgiveness and the continuum used for all other loan funding. The interest rate for loans associated with the hardship threshold was not changed and is the same for all REVOLVING FUND loans.

The following is an example of how Ecology determines its interest rates for hardship loans.

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 6a - Loan Hardship-Funding Continuum (REVOLVING FUND loans)

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

Ecology made minor adjustments, through emergency rule, to its hardship continuum to implement the forgivable principal requirement under the Recovery Act.

The following is an example of how Ecology determined Recovery Act forgivable principal amounts for hardship construction loans.

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 four percent of the median household income, Ecology may forgive 75 percent of the loan principal. The interest bearing portion of the loan would bear an interest rate of one percent. To determine the interest rate on all loans, including the portion that is not forgiven, the loan hardship funding continuum for the REVOLVING FUND is used (see above table 6a).

Table 6b - Recovery Funding Hardship Continuum (to determine amounts of forgivable loan principal allowed for eligible construction costs:

Sewer User Fee divided by MHI	Below 2.0%	2.0% and above, but Below 3.0%	3.0% and above, but below 4.0%	4.0% and above
Hardship Designation	Nonhardship (Low sewer user rates in relation to MHI)	Moderate Hardship	Elevated Hardship	Severe Hardship (Very high sewer user rates in relation to median household income (MHI))
Loan Hardship-Funding Continuum	Not eligible for forgivable principal	50% forgivable loan principal up to ceiling amount	75% forgivable loan principal up to ceiling amount	100% forgivable loan principal up to ceiling amount

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:

- Five 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

7. Provide the type and amount of financial assistance most advantageous to communities, while maintaining the revolving nature, financial integrity, and long-term health of the REVOLVING FUND.

Progress: (See short-term goal No. 6 of this section)

8. Work with the Puget Sound Partnership to ensure that project proposals identified for funding advance the long-term goals of the Governor's Puget Sound Initiative.

Progress: (See short-term goal No. 10 of previous section)

9. Monitor Recovery Fund projects to ensure that progress is consistent with the intent of the Recovery Act.

Progress: (See short-term goal No. 10 of previous section)

Ecology placed all Recovery Act projects on its increased oversight list, which typically means that current progress reports and back up documentation must be provided with all payment requests and site visits could be more frequent. To date, the additional site visits helped uncover at least one incidence of pipe that had been produced from a Canadian company instead of an American company. Ecology was able to prevent the pipe from going in the ground and instructed the REVOLVING FUND loan recipient to return the pipe or risk losing Recovery Act funds.

Ecology also tracks major project milestones on a separate spreadsheet kept in the Headquarters Office. In addition, the Washington State auditor conducts comprehensive annual audits on Recovery Act projects.

10. Review and incorporate amendments to Chapter 90.50A, Water Pollution Control Facilities-Federal Capitalization Grants.

Progress:

Amendments were not made as planned so Ecology's input was not needed.

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Program Changes and Development

Discussion

This report covers the SFY10 funding cycle that ended on June 30, 2010, 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 ongoing efforts that span multiple funding cycles, including the enactment and implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act).

The REVOLVING FUND program underwent significant changes in SFY10 primarily due to new requirements imposed under the Recovery Act.

Davis Bacon

The Appropriations Act, 2010, included Davis-Bacon provisions. On November 30, 2009, the EPA issued a memo that made Davis-Bacon a requirement for entire REVOLVING FUND program and not just the Recovery Act funds. The memo states that “States must include in all assistance agreements . . . executed on or after October 30, 2009, and prior to October 1, 2010, for the construction of treatment works . . . a provision requiring the application of Davis-Bacon Act requirements for the entirety of the construction activities financed by the assistance agreement through completion of construction, no matter when construction commences.” This new requirement affected SFY10 funding assistance agreements that had not been fully executed.

On September 30, 2010, the President signed the Continuing Appropriations Act of 2011, (Continuing Resolution). The EPA also issued a memo extending the time period for including Davis-Bacon provisions in all funding assistance agreements. The extension covers the full term of the Continuing Resolution.

Recovery Act

The mechanism used to administer the Recovery Act is the same as the REVOLVING FUND. Recovery Act Funds carry the same federal requirements as the REVOLVING FUND plus a few more, including a Davis-Bacon wage requirement, a buy-American clause, and a reporting requirement to track job creation resulting from funded projects.

Implementation of the Recovery Act continues with project monitoring and federal and state monitoring. All Recovery Act projects were placed on Ecology’s increased oversight list and one full-time staff member manages the increased workload associated with the increased reporting requirements. The Recovery Act is discussed throughout this report.

Emergency Rule (Recovery Act and REVOLVING FUND)

Ecology provides the administrative framework for funding decisions related to the Recovery Act through a series of emergency rule amendments to Chapter 173-98 WAC, Uses and Limitations of the Washington State Water Pollution Control Revolving Fund. Ecology entered permanent rulemaking on August 19, 2010, and is currently using the emergency rulemaking process as a stopgap pending adoption of the permanent rule. The outcome of the permanent rulemaking process will be discussed further in the SFY11 annual report.

To date, Ecology has adopted three emergency rules effective:

- From April 15, 2009, to August 13, 2009
- August 23, 2010, to December 21, 2010
- December 21, 2010, to April 20, 2011

These emergency rules primarily cover the framework to implement the following:

- 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
- Guidance for Green Project Reserves

The permanent rules will incorporate much of the emergency rule contents as well as new issues that arise.

REVOLVING FUND loan agreements that were issued during the time in which emergency rules were not in place (August 14, 2009 - August 23, 2010) were issues based on the framework in the REVOLVING FUND Intended Use Plan, which referenced the text of the April 15, 2009, emergency rule.

Grants and Contracts Payable System

In early 2011, Ecology will be working with the Washington State Recreation and Conservation Office to conduct an evaluation and testing of the PRISM system to see if it meets key business needs for use with the REVOLVING FUND loan program and associated water quality grant programs. This is an ongoing effort as described in the Executive Summary of this report.

State Environmental Review Process (SERP)

The revised and updated SERP guidance is nearly finished and the SERP procedure has been submitted to EPA for review. The EPA gave verbal feedback on the procedure on January 4, 2010. On January 10, 2010, Ecology hired a full-time SERP Coordinator.

Account Financial Status

Binding Commitments and Financial Assistance Activity

The Clean Water Act (CWA) requires cumulative 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 Capitalization Grant under Binding Commitment within Required Timeframe
Cumulative cap. grant received ending June 30, 2010	\$578,596,306	
Cumulative Binding Commitment Required by June 30, 2010	\$694,315,567	120%
Actual Cumulative Binding Commitments ending June 30, 2010, including match & principal and Interest repayments	\$1,016,902,846*	175%

Notes: This amount was derived from adding the SFY10 binding commitments to the cumulative binding commitments listed in this section for last year's annual report (SFY09).

Table 8 includes the date in which Ecology fully executed a binding commitment for projects on the SFY10 IUP. The blue shaded areas represent project funded with the Recovery Act. The pink shaded area represent project funded with the REVOLVING FUND.

Table 8 – Projects List with Binding Commitment Date

Project Title	Final Ecology Loan #	Recipient	Binding Commitment Date
Gorst Sewerage Project-Construction Phase	L1000019	BREMERTON CITY OF	12/18/2009
Gorst Septic System Replacement Project-Construction Phase	L10S0011	BREMERTON CITY OF	12/18/2009
Deschutes Parkway to Tumwater Reclaimed Water Pipeline Project	L1000016	LOTT WASTEWATER ALLIANCE	12/17/2009
Upper Whipple Creek Habitat Protection and Runoff Control	L1000012	CLARK COUNTY	12/01/2009
WWTP Aeration Basin Energy Improvements	L1000013	RICHLAND, CITY OF	11/12/2009
Arlington Wastewater Treatment Plant Upgrade and Expansion	L1000024	ARLINGTON CITY OF	12/23/2009

Project Title	Final Ecology Loan #	Recipient	Binding Commitment Date
Wastewater Treatment Facility Improvement Project	L1000017	KITTITAS CITY OF	12/01/2009
Stormwater Treatment Retrofit Project	L1000007	TACOMA CITY OF	12/03/2009
Yauger Park Regional Stormwater Pond Expansion Phase 1	L1000008	OLYMPIA, CITY OF	11/20/2009
West Broadway Surge	L1000011	SPOKANE CITY OF	11/30/2009
Ryderwood Infiltration Inflow Removal	L1000021	COWLITZ COUNTY	01/14/2010
Belfair Wastewater and Water Reclamation Facilities	L1000026	MASON COUNTY	12/28/2009
Ballard Green Streets	L1000027	SEATTLE PUBLIC UTILITIES	02/03/2010
City of Airway Heights Wastewater Treatment Reclamation and Recharge Project (Phase 1B)	L0900007	AIRWAY HEIGHTS, CITY OF	07/13/2009
Goldsborough Creek Sanitary Sewer Improvement Project	L1000002	CITY OF SHELTON	10/09/2009
Vantage Sewer Lift Station Replacement Project	L1000032	KITTITAS COUNTY WATER DIST NO. 6	04/23/2010
Gorst Septic System Replacement Project-Design Phase	L1000009	BREMERTON CITY OF	10/23/2009
Gorst Sewerage Project-Design Phase	L1000010	BREMERTON CITY OF	10/23/2009
Wastewater Treatment Plant	L1000015	WILBUR TOWN OF	01/21/2010
Uniontown Wastewater Treatment plant Upgrade	L1000006	UNIONTOWN TOWN OF	12/17/2009
Onsite Repair Financial Assistance Program	L1000014	ISLAND COUNTY HEALTH DEPARTMENT	02/19/2010
Pierce County Septic Replacement Septic Grant Program	L1000033	PIERCE COUNTY	07/28/2010
Willapa Regional Wastewater Facilities Project	L1000028	RAYMOND CITY OF	01/25/2010
Sequim Water Reclamation Facility Upgrade & Expansion	L1000004	SEQUIM, CITY OF	09/08/2009
Burnt Bridge Creek Greenway Expansion	L1000018	VANCOUVER CITY OF	01/29/2010
Skykomish Wastewater Facilities-Phase 2A	L1000023	SKYKOMISH TOWN OF	01/06/2010

Project Title	Final Ecology Loan #	Recipient	Binding Commitment Date
Arlington Wastewater Treatment Plant Upgrade & Expansion	L1000025	ARLINGTON CITY OF	12/23/2009
Lincoln Avenue Grade Separation Storm Drainage Project	L1000030	YAKIMA, CITY OF	03/15/2010
Rock Island Wastewater Treatment Facility Project	L1000031	ROCK ISLAND, CITY OF	02/16/2010
Skagit County Local Loan Fund	L1000035	SKAGIT COUNTY	06/07/2010
Reclamation Wastewater Treatment Reclamation Recharge Project (Phase 1B)	L0900008	AIRWAY HEIGHTS, CITY OF	06/11/2010
Bond Street CSO Control Facilities	L1000022	EVERETT, CITY OF	01/21/2010

Financial Statements

The exhibits provided at the end of this report present the unaudited financial statements for the REVOLVING FUND SFY10 program. Exhibit 6, Notes to Financial Statements, is integral to the financial statements.

Credit Risk of the REVOLVING FUND

REVOLVING FUND loan agreements 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 a REVOLVING FUND 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 REVOLVING FUND Account. In addition, Ecology staff conducts financial capability assessments on 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 (know 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.

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 requested updates from borrowers with projects that were funded in SFY09. Ecology will request updates again in January 2011.

Upon completing the credit worthiness assessments, Ecology was able to identify one entity whose financial statements indicated a deficit. Further investigation revealed that a sewer rate study had not been completed and the current sewer rates were not adequate to repay the loan. Ecology contacted Rural Community Assistance Corporation to provide essential technical assistance to the potential REVOLVING FUND recipient and helped the entity reduce the project costs and develop a rate study based on community outreach and sound financial planning. Because of this assistance, Ecology was able to award the loan.

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 REVOLVING FUND
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 13-19 are discussed in more detail below:

13. Binding Commitments

The State Treasurer deposited into the REVOLVING FUND 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 SFY10 the state of Washington disbursed all cash draws and other available REVOLVING FUNDS in a timely and expeditious manner.

15. Eligible Activities of the REVOLVING FUND

All projects funded were for eligible activities of the REVOLVING FUND.

16. Disadvantaged Business Enterprise (40 CFR, Part 33) Requirement

All REVOLVING FUND recipients were required to comply with all federal and state nondiscrimination laws.

17. Other Federal Authorities

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

18. State Environmental Review Process (SERP)

During SFY10 Ecology conducted environmental reviews on all Section 212, and Section 212-like projects authorized under Section 320, 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 SERP. The SERP is used by Ecology to ensure that federal environmental cross cutters are complied with. Information on the updated process has been submitted to the EPA for review. This update will improve transparency and increase applicant certainty with the process.

19. Cash Draw Procedures

Exhibit 2 shows disbursements 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.

Exhibits

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 1 – Projects Receiving Assistance in SFY10

Applicant Name	Project Title	Project Category (Facility/Activity)	CWSRF Funds Offered (Actual)	Recovery Act Standard Loan Offered (Actual)	Recovery Act Forgivable Principal Offered (Actual)	Total Funded or Commitment (Actual)	Total Recovery Act Green Dollars Offered (portion of RA loan/forgivable)	Interest Rate	Terms
*Spokane County	Regional Water Reclamation Facility	Facility	\$16,225,000	\$0	\$0	\$16,225,000	\$0	2.90%	20
Airway Heights, City of	Water Reclamation and Recharge Project	Recovery Act Hardship Facility	\$166,707	\$9,328,526	\$13,646,092	\$23,141,325	\$7,000,000	0.60%	20
Bremerton Public Works and Utilities	Gorst Sewerage Project	Recovery Act Hardship Facility - Step 4: Design & Construction (Design Only Portion)	\$568,350	\$0	\$0	\$568,350	\$0	1.40%	20
Bremerton Public Works and Utilities	Gorst Sewerage Project	Recovery Act Hardship Facility - Step 4: Design & Construction: (Construction Only Portion)	\$0	\$663,251	\$4,863,840	\$5,527,091	\$0	1.40%	20

Applicant Name	Project Title	Project Category (Facility/Activity)	CWSRF Funds Offered (Actual)	Recovery Act Standard Loan Offered (Actual)	Recovery Act Forgivable Principal Offered (Actual)	Total Funded or Commitment (Actual)	Total Recovery Act Green Dollars Offered (portion of RA loan/forgivable)	Interest Rate	Terms
Skykomish, Town of	Skykomish Wastewater Facilities Project: Phase 2A Sewer System	Facility	\$750,000	\$0	\$0	\$750,000	\$0	2.90%	20
Pierce County	Septic Repair Grant and Loan Project	Activity	\$500,000	\$0	\$0	\$500,000	\$0	2.90%	20
Bremerton Public Works and Utilities	Gorst Septic System Replacement Project	Recovery Act Hardship Facility - Step 4: Design & Construction (Design Only Portion)	\$110,000	\$0	\$0	\$110,000	\$0	2.90%	20
Bremerton Public Works and Utilities	Gorst Septic System Replacement Project	Recovery Act Hardship Facility - Step 4: Design & Construction: (Construction Only Portion)	\$0	\$0	\$1,349,306	\$1,349,306	\$0	2.90%	20
Raymond, City of and City of South Bend	Willapa Regional Wastewater Facilities	Recovery Act Hardship Facility	\$2,086,706	\$0	\$	\$2,086,706	\$0	1.10%	20
Raymond, City of and City of South Bend	Willapa Regional Wastewater Facilities	Recovery Act Hardship Facility	\$	\$0	\$3,263,821	\$3,263,821	\$0		
Wilbur, Town of	Wastewater Treatment Project	Centennial/SRF Hardship Facility - Step	\$1,876,901	\$0	\$0	\$1,876,901	\$0	1.40%	20

Applicant Name	Project Title	Project Category (Facility/Activity)	CWSRF Funds Offered (Actual)	Recovery Act Standard Loan Offered (Actual)	Recovery Act Forgivable Principal Offered (Actual)	Total Funded or Commitment (Actual)	Total Recovery Act Green Dollars Offered (portion of RA loan/forgivable)	Interest Rate	Terms
		4: Design & Construction							
Sequim, City of	Water Reclamation Facility Upgrade & Expansion	Facility	\$5,540,000	\$0	\$0	\$5,540,000	\$0	2.10%	20
Uniontown, Town of	Wastewater Treatment Plant Upgrade	Recovery Act Hardship Facility - Step 4: Design & Construction	\$216,726	\$0	\$2,081,405	\$2,298,131	\$0	1.10%	20
Rock Island, City of	Rock Island Wastewater Treatment Facility	Recovery Act Hardship Facility	\$1,215,533	\$0	\$2,257,418	\$3,472,951	\$0	1.80%	20
Olympia, City of	Enhanced Water Quality Treatment of Stormwater Runoff at Yauger Park	Recovery Act Green Activity	\$0	\$1,214,017	\$1,214,017	\$2,428,034	\$2,428,034	2.90%	20
Kittitas County Water District #6	Vantage Sewer Lift Station Replacement	Centennial/SRF Hardship Facility - Step 4: Design & Construction	\$205,744	\$0	\$0	\$205,744	\$0	2.50%	20
Shelton, City of	Goldsborough Creek Sanitary Sewer Improvement Project	Facility	\$1,321,210	\$0	\$0	\$1,321,210	\$0	2.90%	20

Applicant Name	Project Title	Project Category (Facility/Activity)	CWSRF Funds Offered (Actual)	Recovery Act Standard Loan Offered (Actual)	Recovery Act Forgivable Principal Offered (Actual)	Total Funded or Commitment (Actual)	Total Recovery Act Green Dollars Offered (portion of RA loan/forgivable)	Interest Rate	Terms
Arlington, City of	Wastewater Treatment Plant Upgrade and Expansion	Recovery Act Facility	\$9,467,660	\$5,090,259	\$449,741	\$15,007,660	\$899,481	2.90%	20
Everett Public Works	Bond Street Combined Sewer Overflow (CSO) Control Facilities	Facility	\$6,249,652	\$0	\$0	\$6,249,652	\$0	2.90%	20
Cowlitz County	Ryderwood Infiltration and Inflow Removal	Recovery Act Hardship Facility - Step 4: Design & Construction	\$0	\$223,157	\$639,470	\$862,627	\$0	1.00%	20
Kittitas, City of	WWTF Improvements Project	Recovery Act Hardship Facility - Step 4: Design & Construction	\$0	\$241,824	\$130,212	\$372,036	\$0	2.20%	20
Mason County	Belfair Wastewater and Water Reclamation Facilities	Recovery Act Hardship Facility	\$0	\$3,897,293	\$5,716,829	\$9,614,122	\$0	2.80%	20
Island County	On-Site Repair Financial Assistance Program		\$300,000	\$0	\$0	\$300,000	\$0	1.50%	5

Applicant Name	Project Title	Project Category (Facility/Activity)	CWSRF Funds Offered (Actual)	Recovery Act Standard Loan Offered (Actual)	Recovery Act Forgivable Principal Offered (Actual)	Total Funded or Commitment (Actual)	Total Recovery Act Green Dollars Offered (portion of RA loan/forgivable)	Interest Rate	Terms
Vancouver, City of	Burnt Bridge Creek Greenway Expansion and Riparian Restoration Project	Activity	\$1,100,000	\$0	0	\$1,100,000	\$0	2.90%	20
Clark County	Upper Whipple Creek Habitat Protection and Enhancement	Recovery Act Green Activity	\$0	\$371,710	\$371,710	\$743,420	\$743,420	2.90%	20
LOTT Alliance	Deschutes Parkway to Tumwater Reclaimed Water Pipeline Project	Recovery Act Green Facility - Step 4: Design & Construction	\$0	\$1,074,398	\$1,074,398	\$2,148,796	\$2,148,796	2.90%	20
Tacoma, City of	City of Tacoma Stormwater Treatment Retrofit Project	Recovery Act Green Activity	\$0	\$609,978	\$609,978	\$1,219,956	\$0	2.90%	20
Richland, City of	WWTP Aeration Basin Energy Improvements	Recovery Act Green Facility	\$0	\$1,524,652	\$1,524,652	\$3,049,304	\$3,049,304	2.90%	20
Seattle Public Utilities	Ballard Green Streets	Recovery Act Green Activity	\$0	\$697,309	\$697,309	\$1,394,618	\$1,394,618	2.90%	20

Applicant Name	Project Title	Project Category (Facility/Activity)	CWSRF Funds Offered (Actual)	Recovery Act Standard Loan Offered (Actual)	Recovery Act Forgivable Principal Offered (Actual)	Total Funded or Commitment (Actual)	Total Recovery Act Green Dollars Offered (portion of RA loan/forgivable)	Interest Rate	Terms
Spokane, City of	West Broadway SURGE	Recovery Act Green Activity	\$0	\$299,626	\$299,626	\$599,252	\$599,252	2.90%	20
Skagit County Planning and Development Services	Skagit County Local Loan Fund	Activity	\$1,750,000	\$0	\$0	\$1,750,000	\$0	2.90%	20
Yakima, City of	Lincoln Avenue Grade Separation Storm Drainage	SRF Activity	\$1,214,000	\$0	\$0	\$1,214,000	\$0	2.90%	
		Total IUP Offers	50,864,189	25,236,000	40,189,824	\$116,290,013	18,262,905		

*Ecology issued a binding commitment through a formal letter for the Spokane County Regional WWTF.

STATE OF WASHINGTON
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**Exhibit 2 – Disbursements and Accruals
June 30, 2010**

	SFY 2010	Federal	State
2010 DISBURSEMENTS FOR LOANS	\$20,539,382	\$17,115,504	\$3,423,878
2010 DISBURSEMENTS FOR ADMIN	\$862,399	\$718,603	\$143,796
TOTAL DISBURSEMENTS	\$21,401,781	\$17,834,107	\$3,567,673
2010 CASH DRAW FROM CAPITALIZATION GRANTS	(\$17,834,107)		
2010 STATE MATCH (20% of CASH DRAWS)	\$3,567,673		
2010 100% STATE FUNDS DISBURSEMENTS	\$36,737,968		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$58,139,749		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.33%		
NOTE: ARRA is not on this report 100% Federal			

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 3 – Net Assets & Balance Sheet

	2010	2009
Assets:		
Current assets:		
Cash and cash equivalents	43,802,360	37,573,564
Receivables:		
Due from federal government	(80,780)	317,745
Interest on SRF loans	1,613,425	1,619,849
Due from other funds	322,664	229,723
Total receivables	1,855,309	2,167,317
Collateral Held/Security Lending Agreements	0	0
Current maturities of SRF loans	32,290,445	30,391,971
Total current assets	77,948,113	70,132,852
Loans receivable, net of current maturities	605,282,488	567,886,868
Total assets	683,230,601	638,019,720
Liabilities and Fund Equities:		
Current liabilities:		
Accounts payable and accrued expenses	117,824	117,459
Due to other funds	37,555	261,043
Obligation Under Security Lending Agreement	0	0
Construction costs payable	9,957,094	7,368,991
Total current liabilities	10,112,473	7,747,493
Net Assets:		
Restricted	673,118,128	630,272,227
Total liabilities and net assets	683,230,601	638,019,720

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

	2010	2009
Operating Revenues:		
Interest income on SRF loans	\$9,947,720	\$8,803,974
Operating Expenses:		
Salaries and benefits	\$1,056,206	\$1,123,994
Supplies	\$24,666	\$38,113
Travel	\$13,477	\$8,983
Indirect costs	\$392,001	\$401,415
Contracts	\$0	\$0
Equipment	\$294	\$515
Total operating expenses	\$1,486,644	\$1,573,021
Operating income (loss)	\$8,461,076	\$7,230,953
Nonoperating Revenue (Expenses)		
Interest on investments	\$701,794	\$1,423,686
Funds received from EPA	\$40,261,921	\$22,085,553
Funds received from State of Washington	\$3,611,019	\$4,383,919
Immaterial Adjustments to Prior Period	\$2	\$0
Loan Principal Forgiven	(\$10,189,912)	\$0
Total nonoperating revenue	\$34,384,825	\$27,893,158
Change in net assets	\$42,845,900	\$35,124,268
Net assets, beginning of year	\$630,272,227	\$595,147,959
Net assets, end of year	\$673,118,128	\$630,272,227

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

	2010	2009
Cash Flows from Operating Activities:		
Receipts from customers	\$9,442,837	\$9,931,810
Payments to employees and suppliers	(\$1,802,966)	(\$1,488,573)
Forgivable Principal Loans Disbursements	(\$10,189,912)	\$0
Loans Disbursements	(\$68,891,007)	(\$77,707,016)
Repayments on loans	\$32,696,324	\$31,487,640
Net cash provided (used) by operating activities	(\$38,744,724)	(\$37,776,140)
Cash Flows from Non-capital Financing Activities:		
Funds received from EPA	\$40,660,446	\$22,044,032
Transfers from other State funds	\$3,584,881	\$4,390,797
Transfer out from IT Project	\$0	\$0
Net cash provided (used) by non-capital financing activities	\$44,245,327	\$26,434,829
Cash Flows from Investing Activities:		
Receipts from interest on investments	\$728,193	\$1,481,534
Net cash provided (used) by investing activities	\$728,193	\$1,481,533
Net cash provided (used)	\$6,228,796	(\$9,859,778)
Cash and cash equivalents, beginning of year	\$37,573,564	\$47,433,341
Cash and cash equivalents, end of year	\$43,802,360	\$37,573,563
Footnote: See Exhibit 6: Notes to Financial Statements for explanation to the changes made on this exhibit.		
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 Clean Water State Revolving Fund (REVOLVING FUND) program to replace the construction grants program. The Washington State Department of Ecology (Ecology) has exclusive responsibility for management of the REVOLVING FUND, 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 REVOLVING FUND and The Account, neither of which are legally separate entities.

Operation of the REVOLVING FUND and the Account

The REVOLVING FUND 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 \$544,463,697 in capitalization grants from 1989 through June 30, 2010. The State match share for that awarded amount is \$95,262,359. For the period of this report, State match is transferred to the Account from the State General Fund (Account No. 001) at time of each cash draw.

The Account is administered by the Ecology through the Water Quality Program (the Program). The Program's primary responsibilities for the REVOLVING FUND 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. Ecology employees charge the Account for actual time worked on REVOLVING FUND 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 who 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.

In FY 2007 and prior years, on the Comparative Statement of Cash Flows, both Loans Disbursements and Repayments on Loans were classified as investing activities. These activities should be included in operating activities. In FY 2008 these items were reclassified as cash flows from operating activities, impacting both the net cash provided from operating activities and net cash provided from investing activities.

Loans Receivable

Ecology 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, 2010, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was 4 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, 2010	<u>\$43,802,360</u>	<u>\$43,802,360</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 SFY 2010 were established at 1.5 percent for up to a five year-term and 2.9 percent for loans with more than a five-year term, but no more than 20 years. The Account also makes hardship loans as low as zero interest rate or communities that can demonstrate financial hardship on residential ratepayers in the form of sewer user fees. In SFY10 no zero percent loans were made. However, there were numerous, additional subsidies in the form of lower interest rates for hardship projects as illustrated in Exhibit 1 of this report. As of June 30, 2010, the Account had made zero-interest-rate loans for approximately \$256,631,078 million to communities with severe financial hardship. This represents 25.5% of the Account portfolio. 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, 2010, are summarized below:

Loans by Category:

Loans receivable by project status at June 30, 2010 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Outstanding Balance</u>
Completed projects	689,529,067	0	507,915,845
Projects in progress	186,896,150	67,196,156	<u>119,699,994</u>
Totals			627,615,839
Payment requests in progress (Received as of June 30, 2010, but not yet paid)			9,957,094
Less Amount Due in one year			(32,290,445)
Loans receivable, June 30, 2010 (Net of current maturities)			<u>605,282,488</u>

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

Year ending June 30:	<u>Amount</u>
2011	34,138,383
2012	34,508,684
2013	34,962,158
2014	35,489,816
2015	36,043,820
Thereafter	335,902,471
	<u>\$511,045,332</u>

Loans to Major Local Entities:

As of June 30, 2010, 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 Arlington	14,558	51	6,817	8,402
City of Bremerton	9,716	138	8,937	6,742
City of Camas	9,292	720	10,012	6,085
City of Centralia	35,318	42	35,359	25,402
City of Chehalis	35,343	44	35,388	30,547
City of Cheney	14,049	-	12,930	11,926
City of Colville	6,171	20	6,191	5,313
City of Kalama	7,031	54	7,085	5,829
City of Kennewick	9,693	674	10,368	5,666
City of Monroe	11,808	527	12,335	5,080
City of Mt. Vernon	18,785	764	18,452	17,903
City of Pasco	22,726	2,284	25,011	13,198
City of Sequim	10,864	86	10,950	7,811
City of Stanwood	9,306	-	9,306	6,778
City of Sunnyside	12,377	-	12,377	10,790
City of Tacoma	73,848	1,941	75,210	70,859
City of Toppenish	12,158	-	11,325	10,105
City of Walla Walla	13,389	831	14,220	8,501
City of Wenatchee	7,195	197	7,392	6,406
City of Winlock	6,635	4	6,638	6,278
King Co. Dept. Nat. Resources	155,047	11,362	164,267	86,363
King Co. Wastewtr. Treat. Div.	26,769	103	26,872	21,028

Kitsap County Public Works	10,173	178	10,351	8,173
Lake Stevens Sewer District	39,940	848	36,794	36,794
Lott Wastewater Alliance	67,707	6,006	73,583	40,849
Mason County	20,628	162	18,972	10,663
Seattle Public Utilities	10,067	271	8,175	8,175
Spokane County	19,140	94	19,234	15,230
Spokane County Conservation	18,531	337	12,329	9,664

Total	<u>\$708,264</u>	<u>\$27,738</u>	<u>\$706,880</u>	<u>\$506,560</u>
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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 \$544,464 in grants to the State, of which \$459,749 has been drawn for loans and administrative expenses. The State has provided a total of \$87,294 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 Year	Grant Amount	Draws through SFY <u>2009</u>	<u>2010 Draws</u>	Draws through SFY <u>2010</u>	Available SFY <u>2010</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	18,739	0	18,739	0
2006	26,347	12,012	14,335	26,347	0

2007	19,410	0	3,343	3,343	16,067
2008	11,834	0	170	170	11,664
2008 (ARRA)	68,152	291	22,428	22,719	45,433
2009	11,834	0	13	13	11,821
	<u>\$544,464</u>	<u>\$419,190</u>	<u>\$40,289</u>	<u>\$459,749</u>	<u>\$84,985</u>

As of SFY 2010, State matching contributions were:

	<u>SFY 2009</u>	<u>2010 Contribution</u>	<u>SFY 2010</u>
Washington State Matching Contributions	<u>\$83,726</u>	<u>\$3,568</u>	<u>\$87,294</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 – REVOLVING FUND Project Environmental Benefits Reporting

Washington Summary Report for CW Benefits

	Loans		Projects			Borrowers		
	Assistance Dollars (millions)	Numbers	Assistance Dollars (millions)	Subsidy Dollars (millions)	Numbers	Facility Population (millions)	Facility Flow (MGD)	Numbers
Total Records	99.4	28	99.4		28	1.5	57	27
Complete Records	99.4	28	99.4	27.8	28	1.5	57	27
Impacting Human Health	99.4	28	99.4	27.8	28	1.5	57	27
	100%	100%	100%		100%	14,789	People Served per 5million	100%
With Impaired Waterbody			97.1	27.8	27	1.5	57	26
			98%		96%	15,141	People Served per 5million	96%
With Waterbody Meeting Standards			0.0	0.0	0			
To Improve Water Quality			84.3	23.2	20			
To Maintain Water Quality			15.1	4.7	8			
To Achieve Compliance			54.8	15.3	9			
To Maintain Compliance			18.7	5.0	10			

Washington Designated and Other Uses for Complete Records
All Primary and Secondary Uses - State Use Codes
All Projects

Use Type	Code	Description	Millions of Dollars			
			Total	Protect	Restore	
DESIGNATED	WA001	Water supply -- domestic	5.3	5.3	0.0	
	WA003	Water supply -- agricultural/stock watering	2.3	2.3	0.0	
	WA004	Salmonid migration, growth, and harvesting	79.7	7.7	72.0	
	WA005	Other fish migration, growth, and harvesting	40.7	2.2	38.6	
	WA006	Clam, oyster, and mussel growth and harvesting	36.3	6.0	30.3	
	WA007	Crustaceans/other shellfish growth and harvesting	40.9	8.2	32.8	
	WA009	Primary contact recreation	89.0	12.8	76.2	
	WA010	Secondary contact recreation, boating	49.9	12.8	37.0	
	OTHER	OG001	Groundwater Protection	28.8	3.5	25.3
		OI002	Infrastructure Improvement	52.8	19.0	33.8
OO001		Other Public Health/Pathogen Reduction	40.8	6.6	34.1	
OR001		Regionalization/Consolidation	32.0	5.4	26.6	
OW001		Water Reuse/Recycling/Conservation	30.8	7.7	23.1	

Washington Designated and Other Uses for Complete Records
All Primary and Secondary Uses - National Use Codes
All Projects

Use Type	Code	Description	Millions of Dollars		
			Total	Protect	Restore
DESIGNATED	US001	Drinking Water	5.3	5.3	0.0
	US002	Aquatic Life & Wildlife	111.4	8.7	102.7
	US003	Primary Contact Recreation	89.0	12.8	76.2
	US004	Secondary Contact Recreation	49.9	12.8	37.0
	US006	Shellfish Consumption	69.1	8.7	60.4
	US008	Agricultural Water Supply	2.3	2.3	0.0
OTHER	OG001	Groundwater Protection	28.8	3.5	25.3
	OI002	Infrastructure Improvement	52.8	19.0	33.8
	OO001	Other Public Health/Pathogen Reduction	40.8	6.6	34.1
	OR001	Regionalization/Consolidation	32.0	5.4	26.6
	OW001	Water Reuse/Recycling/Conservation	30.8	7.7	23.1

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 8 – 4% Administration Allowance

Grant #	Federal Award	Admin Max 4%	Spent through SFY10	Balance Remaining SFY10
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	776,381.64	0.00
CS-530001-08	11,833,668.00	473,346.72	203,954.47	269,392.25
2W-96091001	68,151,900.00	2,726,076.00	915,403.33	1,810,672.67
CS-530001-09	11,833,668.00	473,346.72	15,195.00	458,151.72
Grand Total	544,463,697.00	21,778,547.88	19,240,331.24	2,538,216.64

4% of Total Federal = ADMIN CAP

Note: FFY2000 was omitted from Exhibit 8 because it was zero.

The accompanying notes are an integral part of the financial statements