



ANNUAL REPORT

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

Washington State Water Pollution Control Revolving Account (Account)

For State Fiscal Year 2011
July 1, 2010 - June 30, 2011

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

*by
Washington State
Department of Ecology*

Financial Management Program
Washington State Department of Ecology
Olympia, Washington

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Executive Summary

As the agency delegated by the U.S. Environmental Protection Agency (EPA) to carry out the federal Clean Water Act, the Washington 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 and high degree of accountability and sound management. It provides financial assistance to local governments for wastewater treatment construction projects, for projects that control polluted runoff and other diffuse sources of pollution, and for other projects that protect clean water.

Washington has a long history of investments from dedicated environmental accounts to protect clean water. The Revolving Fund Program recently reached the \$1 billion mark in financial assistance to local communities since its inception in 1989. The money is from special-purpose state and federal funds, not general state taxes.

This report discusses how the State administered the Revolving Fund federal fiscal year 2010 (FFY10) capitalization grant, state match, and principal and interest repayments during the state fiscal year 2011 (SFY11). This report also discusses how Ecology continues to manage projects funded under the American Recovery & Reinvestment Act of 2009 (Recovery Act) during SFY11.

Ecology adopted a series of emergency rules to respond to new federal requirements included in the FFY10 federal appropriations for the Revolving Fund, including provisions for forgivable principal and the funding of Green Project Reserves (GPR). Green Project Reserve refers to projects that are energy-efficient or water-efficient, involve green infrastructure, or are environmentally innovative. Forgivable-principal loans are loans that do not have to be paid back. This is discussed further in the Program Changes & Development Section of this report.

The Revolving Fund is capitalized with annual Capitalization Grants from the EPA and the required 20 percent state match. The state retains four percent of each Capitalization grant for administration expenses as allowed by the Clean Water Act (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.

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 SFY11

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			6,757,839	(1,351,568)	39,195,466
1994	33,425,073			6,685,014	(1,337,003)	38,773,084
1995	20,739,807			4,147,961	(829,592)	24,058,176
1996	21,419,838			4,283,968	(856,794)	24,847,012
1997	22,509,234			4,501,847	(900,369)	26,110,712
1998	23,415,183			4,683,036	(936,607)	27,161,612
1999	23,417,163			4,683,432	(936,687)	27,163,908
2000	-		-	-	-	-
2001	46,758,888			9,351,778	(1,870,356)	54,240,310
2002	23,132,241			4,626,448	(925,290)	26,833,399
2003	23,183,820			4,636,764	(927,353)	26,893,231
2004	23,033,142			4,606,628	(921,326)	26,718,444
2005	23,047,002			4,609,400	(921,880)	26,734,522
2006	18,739,413			3,747,883	(749,577)	21,737,719
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	68,151,900		2,366,734	(3,199,423)	79,152,879
2010	11,833,668			2,366,734	(473,347)	13,727,055
2011	35,433,000			7,086,600	(1,417,320)	41,102,280
Total	498,610,737	68,151,900	13,134,060	102,348,959	(23,195,868)	659,049,788

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

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

***One-time funds transfer to the 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 funding cycles, there may be up to a nine month lag from the time Congress passes the federal budget to when the Washington State Legislature approves the state budget and appropriates funds, which authorizes Ecology to actually utilize the funds. This is why the FFY10 capitalization grant is administered in the SFY11 funding cycle, which ran from July 1, 2010 - June 30, 2011.

Ecology establishes its interest rates for the Revolving Fund annually per Washington Administrative Code (WAC). The interest rates are based on a percent of the interest rate for tax-exempt municipal bonds as published by the Federal Reserve.

For SFY11:

- The interest rate for a five year loan is 1.4 percent.
(30 percent of tax-exempt municipal bonds)
- The interest rate for a 20 year loan is 2.8 percent.
(60 percent of tax-exempt municipal bonds)

Ecology received 141 applications from local governments during the SFY11 funding cycle and also one prior good-faith-funding commitment (Spokane County Regional Wastewater Reclamation Facility).

On June 25, 2010, Ecology provided a written, official “binding commitment” to Spokane County for \$16,225,000 for the Spokane Regional Wastewater Reclamation Facility to be funded from the SFY10 Intended Use Plan (IUP). Spokane County was also on the SFY11 IUP for another \$16,225,000. On March 11, 2011, the Spokane County Board of County Commissioners officially declined all Revolving Fund loan offers. This action returned \$32,450,000 to the Revolving Fund. As shown in Table 2 of this report, Ecology was able to reobligate \$25,533,727 to other projects during the SFY11 funding cycle. Ecology obligated the remaining \$6,866,273 on SFY12 IUP.

Table 2 is a comparison of projects, in priority order, that Ecology included in the Final SFY11 IUP and those actually funded at the close of SFY11.

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Table 2 – Actual Projects Funded Compared to the Final IUP & Project Types

Applicant	Project Name	Total Offer SFY11 IUP (and carry forwards from SFY10)	ACTUAL Loan Activity	ACTUAL Standard Facility Loan	ACTUAL Facility Forgivable Principal	ACTUAL GPR Standard Loan	ACTUAL GPR Forgivable Principal
Spokane County	Regional Water Reclamation Facility	32,450,000	0	0	0	0	0
Blaine, City of	Lighthouse Point Water Reclamation Facility Project	3,514,000	0	0		0	0
Thurston County Department of Public Works	Woodland Creek Estates Sanitary Sewer Project	1,227,780	0	1,227,780	0	0	0
Rosalia, Town of	Wastewater Treatment Plant Facility Plan Project	1,175,000	0	501,903	403,247	134,925	134,925
Kettle Falls, City of	Wastewater Treatment Facility Project	9,801,027	0	5,802,000	3,999,027	0	0
King County DNRP-Wastewater Treatment Division	Ballard Siphon Project	19,989,102	0	31,850,000		0	0
Rock Island, City of	Wastewater Treatment Facility Project	1,646,193	0	0	0	0	0
Centralia, City of	Centralia I&I Reduction Project	5,607,606	0	3,386,994	2,220,612	0	0
Longview, City of	West Longview Sewer Diversion Project	14,195,460	0	12,651,515	0	0	0
Camas, City of	Phase II WWTF Improvements	3,543,300	0	3,300,000	0	1,771,650	1,771,650
Island County Health Department	On-Site Repair Financial Assistance Program	2,000,000	2,000,000	0	0	0	0

Applicant	Project Name	Total Offer SFY11 IUP (and carry forwards from SFY10)	ACTUAL Loan Activity	ACTUAL Standard Facility Loan	ACTUAL Facility Forgivable Principal	ACTUAL GPR Standard Loan	ACTUAL GPR Forgivable Principal
Whatcom County	Whatcom County Septic Loan Program	1,000,000	0	0	0	0	0
Mason County	Belfair Wastewater and Reclamation Facilities - Const.	1,233,000	0	2,525,356	0	616,500	616,500
Kittitas County Public Health Department	Kittitas County Septic Replacement Project	533,334	0	0	0	0	0
Skagit County	Skagit County Non-point Repair Fund	500,000	0	0	0	250,000	250,000
Yakima, City of	Yakima POTW "Green" Cogeneration Project	1,007,116	0	0	0	503,558	503,558
Pacific, City of	White River Treatment BMP Project	2,069,000	2,069,000	0	0	0	0
Oak Harbor, City of	42-inch Outfall Reconstruction Project	500,000	0	0	0	0	0
Kennewick, City of	Wellhead Area Retrofit & Protection Project Phase I	690,000	690,000	0	0	0	0
Milton, City of	City Center Storm Drainage Retrofit Project	441,000	0	0	0	0	0
Kennewick, City of	Kennewick LID Manual and Demonstration Project	390,000	390,000	0	0	0	0
Pierce County Public Works and Utilities	Stormwater Retrofit 192nd Street East LID Project	147,740	0	0	0	0	0
Spokane County	Spokane Co. Regional WWTF	0	0	0	0	0	0

Applicant	Project Name	Total Offer SFY11 IUP (and carry forwards from SFY10)	ACTUAL Loan Activity	ACTUAL Standard Facility Loan	ACTUAL Facility Forgivable Principal	ACTUAL GPR Standard Loan	ACTUAL GPR Forgivable Principal
Airway Heights, City of	Septic Tank Elimination Project Facility	513,000		379,684	133,316	0	0
Lake Stevens Sewer District	Sunnyside Wastewater Facilities	2,629,732	0	5,262,417	0		
Mabton, City of	General Sewer Plan/ Wastewater Facility Plan	0	0	0	0	0	0
Albion, Town of	Wastewater Collection System Improvement Project	0	0	511,900	0	0	0
Spokane, City of	CSO Basin 10 Abatement Project	0	0	1,152,000	0	0	0
Goldendale, City of	Little Klickitat River Sewer Line Project	0	0	0	0	0	0
Fircrest, City of	Relocation of Backyard Sewer Mains-Phase II	0	0	5,000,000		0	0
Fircrest, City of	Relocation of Backyard Sewer Mains-Phase I	0	0	7,633,500	0	0	0
	Total Offered	106,803,390	5,149,000	81,185,049	6,756,202	3,276,633	3,276,633
	Total Funded	99,643,517					
	Carried Forward	7,159,873					

Contracts and Grants Payable Systems

Ecology's Water Quality Program Financial Management Section is 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. An information technology assessment contract is also being used to assist in the evaluation of PRISM and other information technology options to ensure the most cost effective long term solution is chosen to meet the business needs of the financial assistance program. This is an ongoing effort to identify, assess, procure, and develop an information technology system that will improve efficiency, data capture and retrieval, and tracking for the water quality financial assistance loan and grant program.

Introduction

This report describes ongoing management strategies and how Washington State has met the goals and objectives of its Water Pollution Control Revolving Account (Account) program for SFY 11. The Account was created to manage the Clean Water State Revolving Fund (Revolving Fund). This report also reflects program developments undertaken to implement the American Recovery & Reinvestment Act of 2009 (Recovery Act).

This report covers the SFY11 funding cycle that ended on June 30, 2011, which is approximately three months before the issuance of this report. The Revolving Fund program underwent significant changes in SFY11 primarily due to new requirements imposed by Congress under the FFY10 appropriations for the Revolving Fund.

Washington State received a FFY10 federal Capitalization Grant of \$35,433,000, which was added to the Revolving Fund portfolio and loaned out to local governments during SFY11 for high priority water quality projects. Some of the loans made to local governments had provisions to forgive a portion of the loan principal under certain circumstances, such as financial hardship or for projects funded under the Green Project Reserve (GPR) category, as defined by the Environmental Protection Agency (EPA).

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.

Ecology ensured that 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, with a loan portfolio of over \$1 billion. 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 Ecology to respond to emerging needs of local governments and tribes, as well as legislative directives. This is evidenced in the Program's ability to respond to multiple new demands resulting from the implementation and ongoing management of the Recovery Act and new federal and state requirements placed on the Revolving Fund program.

Ecology manages the Revolving Fund 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 efficiencies for both Ecology and clients and stakeholders. Ecology is also administering the state-funded FY 2011 Stormwater Retrofit and Low Impact Development

Competitive Grant Program (Stormwater Program). Ecology strives to integrate aspects of the Stormwater Program with the Revolving Fund and its other funding programs where possible.

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

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Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) is presented to introduce the annual financial statements of the Washington State Water Pollution Control Revolving Fund (Revolving Fund) for the year ended June 30, 2011, and is intended to supplement these financial statements. The Washington State Department of Ecology (Ecology) Revolving Fund loan program 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 the U.S. Environmental Protection Agency (EPA). The SFY11 grant was \$35,433,000. Ecology matches 20 Percent of the grant award with state funds, or \$7,086,600 for SFY11. These funds, combined with repayments on existing loans and investment income, totaled over \$99,937,000 for SFY11. Revolving Fund loan interest rates range from zero to 2.8 percent, with lower rates provided for financial hardship funding recipients

Net assets of the Revolving Fund:

The Washington State Revolving Fund program has no capital assets and no related debt. The total amount of reported net assets as of June 30, 2011 is \$700,917,076.

Income for SFY11:

Net operating income of the Revolving Fund for SFY11 was \$9,097,174. 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 SFY10 was \$8,201,178.

Net operating income increases the amount of net assets in the program. Other increases to net assets include amounts actually received from the EPA Capitalization Grant and amounts contributed as grant match by the state of Washington. In 2011 the amount of federal funds earned was \$40,713,787 and the amount of state matching funds received during the year was \$1,381,837.

Changes in cash position:

During SFY11, the Revolving Fund cash increased by \$22,436,620, as can be seen on the Statement of Cash Flows. Total loan repayments, including principal and interest received from borrowers was \$43,551,816. Interest credited to the Revolving Fund account from the State Treasurer's Office totaled \$426,126. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$1,198,874. Cash received from EPA Capitalization Grant funds totaled \$40,824,325, and matching funds provided by the state of Washington totaled \$972,312. While

cash increased from SFY10 to SFY11, Ecology would like to see cash continue to decrease as we award more loans for priority water quality projects throughout the state in SFY11.

State matching funds

For SFY11, State matching funds were made available through the State General Fund Account. Revenue from this account is derived from a combination of taxes and transfers.

Recovery Act Clean Water State Revolving Fund

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

The Environmental Protection Agency (EPA) awarded a Capitalization Grant from the Recovery Act for federal fiscal year (FFY) 2009, totaling \$68,151,900. Of this amount, \$65,425,824 was available for projects and \$2,726,076 was available to administer the program. Recovery Act projects are nearing completion. As of July 31, 2011, 84 percent of the project funds have been disbursed.

Conclusion

This MD&A is intended to provide a summary of the financial condition of the Revolving Fund loan program and should be used 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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Progress on Goals, & Objectives

The overall mission of Ecology is to protect, preserve, and enhance Washington's environment, and promote the wise management of our air, land, and water.

In addition, the mission of Ecology's Water Quality Program is to prevent and clean up water pollution, to help communities make sustainable choices that reduce and prevent water quality problems, and to provide water quality partners with technical and financial assistance for high priority water quality projects.

The following short and long-term goals are identified to help achieve the overall mission of Ecology and the Water Quality Program through the water quality focused state and federal grant and loan programs.

Short and long-term goals

Goal No. 1:

Identify and fund the highest priority water quality projects statewide through the annual funding cycle.

- **Objectives:**

1. Coordinate with Headquarters, regional Ecology experts to identify water quality needs that reflect the highest priorities for the Washington State.
2. Coordinate with the EPA, Puget Sound Partnership; advisory groups; and state, federal, and local governments for input in major decisions affecting water quality benefits.
3. Require that funded projects implement actions identified in the *Washington's Water Quality Management Plan to Control Nonpoint Sources of Pollution*, the *Puget Sound Action Agenda*, or other approved water-quality plan.
4. Coordinate and communicate effectively with the EPA.

- **Progress:**

Ecology evaluates and assesses its funding application each year before the opening of the application cycle to ensure it reflects the current state and federal priorities. Prior to developing the Draft IUP and project priorities, project proposals were provided to the following stakeholders for review and comment: Puget Sound Partnership, Washington State Conservation Commission, and the Washington State Department of Health. The Draft IUP was also provided to the EPA for comment.

Goal No. 2:

Provide financial assistance to communities statewide through the annual funding cycle 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.

- **Objectives:**

1. Provide priority-rating consideration for communities to meet state and federal requirements for wastewater and stormwater facilities.
2. Reduce and prevent nonpoint sources of pollution from affecting state waters using appropriate best management practices.

- **Progress:**

Ecology updated its application before the opening of the SFY11 funding cycle application period prior to its availability to the public.

Ecology’s water quality priorities are demonstrated in its funding program rating and ranking process, which emphasizes public health, cleaning up and preventing pollution. Twenty five percent of the funding application points are awarded for efforts that improve water quality and public health.

Regional Ecology project managers and 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.

In the review and evaluation of project proposals, 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 3 shows how Ecology allocates points for water quality project proposals through its evaluation process.

Table 3 – SFY11 Application Point Allocation (updated on August 24, 2011)

Question Number	Application Questions SFY 11	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 75
7	Readiness to Proceed	Up to 75
8	Ratepayer Impact	50
	Total Points:	1000

Goal No. 3:

Provide funding for high priority water quality projects through a fair, objective, and transparent process.

- **Objectives:**

1. Continue to involve stakeholders and clients in major funding program development, including the rule development, program guidance, and application process.
2. Continue to work with advisory groups and councils, such as the Financial Assistance Advisory Council (FAC) and the Water Quality Partnership.
3. Work closely with Ecology's Revolving Fund Executive Oversight Committee that meets on a semi-annual basis.
4. Review the funding application and evaluation process annually to help ensure consistent and objective rating and ranking of project proposals.

- **Progress:**

Ecology met with its FAC three times during SFY11 to discuss the following program topics:

- Legislative proposals and updates.
- Budget issues.
- Loan program models, including acceleration.
- Rule amendment updates.
- State Environmental Review Process (SERP).
- Emerging stormwater issues.
- Washington State Executive Order 05-05(Archeological and Cultural Resources) for nonpoint source projects.
- Best Management Practices.
- National Estuary Program initiatives.
- Updates on other funding agencies.
- Financial hardship updates.

Ecology also conducted quarterly Revolving Fund Executive Oversight Committee meeting to discuss similar issues noted above. In addition, public information and outreach was also conducted for ongoing rule development efforts.

Goal No 4:

Provide the best possible funding packages to financially distressed communities for wastewater and stormwater treatment facilities construction projects.

- **Objectives:**

1. Review and maintain hardship criteria to best reflect actual client and stakeholder needs, emerging environmental conditions, and the affect of sewer user fees on the ratepayer as a percentage of median household income.
2. Update the stormwater grant and loan hardship criteria to better reflect the needs of stakeholders and clients. Evaluate the current process to determine how to better measure hardship for stormwater projects.
3. Continue to provide essential and timely information to the State Legislature about wastewater and stormwater needs of small, rural, and financially challenged communities.

4. Provide additional subsidies in addition to low interest rates through the Revolving Fund in the form of forgivable principal loans as allowed by the federal Appropriations Act of 2010.

- **Progress:**

Ecology continues to review and make necessary updates to its final hardship evaluation process. During the spring and summer of 2011, Ecology staff participated on an interagency committee that developed a joint guidance document for developing survey methodology for determining median household income (MHI) for local communities applying for financial assistance. The joint guidelines will make it easier for local jurisdictions to use a single survey methodology when collecting MHI data that will be used in applications submitted to different funding agencies.

The following tables illustrate Ecology’s hardship continuum for Revolving Fund loans and forgivable principal:

Table 4 - Loan Hardship Funding Continuum

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

Table 5 - Revolving 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	<i>Nonhardship</i> (Low sewer user rates in relation to MHI)	<i>Moderate Hardship</i>	<i>Elevated Hardship</i>	<i>Severe Hardship</i> (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

Ecology also worked with its FAC to update the financial hardship criteria for stormwater. It was decided that Ecology would not to offer Revolving Fund hardship funding for stormwater projects, because the Washington State Legislature continues to appropriate money through the Capital Budget for a state-funded stormwater grant program. At the time of this report

publication the Legislature has appropriated approximately \$100 million dollars for statewide stormwater projects.

Forgivable Principal:

Ecology awarded \$10,032,835 in forgivable principal for GPR and hardship, which exceeded the minimum requirement of \$5,306,739 required in the FY2010 Appropriations Act as illustrated in Table 6.

Table 6 - Forgivable Principal Awarded

Applicant	Project Name	Hardship Forgivable Principal AWARD	GPR Forgivable Principal
Rosalia, Town of	Wastewater Treatment Plant Facility Plan Project	403,247	134,925
Kettle Falls, City of	Wastewater Treatment Facility Project	3,999,027	0
Centralia, City of	Centralia 2009 I&I Reduction Project	2,220,612	0
Camas, City of	Phase II WWTF Improvements	0	1,771,650
Mason County	Belfair Wastewater and Reclamation Facilities - Const.	0	616,500
Skagit County	Skagit County Non-point Repair Fund	0	250,000
Yakima, City of	Yakima POTW "Green" Cogeneration Project	0	503,558
Airway Heights, City of	Septic Tank Elimination Project Facility	133,316	0
	Total	6,756,202	3,276,633

Ecology received 16 applications for hardship consideration for the SFY11 funding cycle. Of the 16 applications, six financially distressed communities were offered wastewater treatment facility construction funding totaling \$28,701,756. As applicants declined funding offers, Ecology streamed the available money down its Final Offer List, which resulted in more funding a higher number of hardship projects, but a lower amount of money used for hardship projects. Ultimately Ecology funded nine hardship projects totaling \$18,324,413 as shown below in Table 7.

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Table 7 - Hardship Projects

Applicant	Project Name	Standard Facility Loan	Hardship Forgivable Principal AWARD	GPR Standard Loan	GPR Forgivable Principal
Blaine, City of	Lighthouse Point Water Reclamation Facility Project.	DECLINED	DECLINED		0
Thurston County	Woodland Creek Estates Sanitary Sewer Project	1,227,780	0	0	0
Rosalia, Town of	Wastewater Treatment Plant Facility Plan Project	\$501,903	\$403,247	\$134,925	\$134,925
Kettle Falls, City of	Wastewater Treatment Facility Project	\$5,802,000	3,999,027	0	0
Rock Island, City of	Wastewater Treatment Facility Project	DECLINED	0	0	0
Centralia, City of	Centralia I&I Reduction Project	\$3,386,994	2,220,612	0	0
Airway Heights, City of	Septic Tank Elimination Project Facility	\$379,684	133,316		0
	Total	11,298,361	6,756,202	\$134,925	\$134,925

Goal No. 5:

Provide technical assistance to local governments and tribes.

• **Objectives:**

1. Continue to conduct internal Ecology facility and activity workgroup meetings to identify problems, needs, and emerging issues regarding wastewater, stormwater, and nonpoint source pollution control projects.
2. Work closely with the EPA to ensure effective coordination associated with major federal environmental prerequisites required under the Revolving Fund and the Section 319 Program.
3. Work closely with appropriate federal and state agencies to ensure effective coordination associated with major state environmental prerequisites required.
4. Provide internal and external outreach at workshops and conferences to disseminate existing and emerging information related to major state and federal requirements, including the Davis-Bacon wage requirement, the State Environmental Review Process, and other requirements.
5. Provide individual training to grant and loan recipients when requested.

• **Progress**

Ecology staff is responsive to the needs of clients and stakeholders. Ecology continues to provide a high level of technical assistance where needed. Ecology also looks for opportunities to market the Revolving Fund, including but not limited to:

- Ecology coordinated with the Washington State Department of Health (DOH) to coordinate the Large On-Site Septic (LOSS) rule with Ecology’s funding program to ensure eligibility of LOSS projects.
- Ecology participated in the Small Communities Initiative (SCI) quarterly Steering Committee Meetings. Ecology, DOH, and the Public Works Board and the “Steering committee”, USDA Rural Development, Washington State Department of Commerce, DOH-LOSS, and EPA also attend the meetings. The steering committee meets in July, October, January, and April to discuss ongoing SCI projects and changes to the various funding programs.
- Revolving Fund staff are members of Ecology’s Climate Change workgroup.
- Ecology provides statewide, annual recipient training.
- Quarterly Facility Workgroup meetings are held.
- Ecology staff helped plan the Infrastructure Assistance Coordinating Council (IACC) conference in Walla Walla and Ellensburg. Several staff presented and participated in technical teams.
- Four funding application workshops were held across the state in September.
- Ecology staff attended the Community Development Block Grant (CDBG) application workshop in Olympia where they talked about coordination and joint funding.
- Ecology participated in the EPA energy management conference in Yakima to look for ways to focus the Revolving Fund program on energy efficiency.
- Staff gave presentations at the Evergreen Rural Water conference in Yakima.
- Ecology fully participated in the EPA GPR workshop in Portland, which provided training and opportunity to strategize with other state Revolving Fund managers.
- Provided training to the Department of Labor – Office of Federal Contractor Compliance on the federal affirmative action and Equal Employment Opportunity requirements. All the other attendees were contractors, so there was a bit of a chance to explain our program to a slightly different audience.
- Presented at the Washington Operators Workshop in Ocean Shores.
- Staff Attended Rural Development’s (RD) Engineering/Environmental Training and later met with RD staff to discuss specific coordination on joint funded projects.
- Ecology participated in several meetings with DOH and Department of Commerce to discuss implementing the “Investment Grade Efficiency Audit” requirements and overall infrastructure efficiencies.
- Staff from the Financial Management Section visited regional offices to provide training on file organization and to resolve some issues with specific projects.
- Activities Workgroup: August 4, October 3, Feb 17.
- Coordinated with SEA Program (Husseman program).
- EAP’s EPA’s Annual Grant Reporting and Tracking System (GRTS) User Group Meeting.
- STEP L and Load Reduction Reporting Training.

Goal No. 6:

Provide sound financial management of the funding programs and projects.

- **Objectives:**

1. Work closely with advisory committees, the EPA, and other state and federal funding agencies to leverage grant and loan funds with internal and external funding programs.
2. Continue to integrate the major funding programs.
3. Evaluate perpetuity of the Revolving Fund annually to ensure the long-term buying power of the fund as defined by Chapter 173-98 WAC, Uses and Limitations of the Water Pollution Control Revolving Fund.
4. Conduct financial capability assessments on new Revolving Fund loan recipients for facilities-type projects before awarding funding.
5. Develop a method, in coordination with other federal and state agencies, to conduct capability assessments on loan recipients for activities-type projects.
6. Refine and standardize, where possible, the current financial capability assessment method, in coordination with other federal and state agencies.
7. Coordinate with Ecology's fiscal office on overall financial management issues and work to prevent and resolve possible audit issues.
8. 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 Goal # 4 for more information related to hardship funding.

Advisory and Oversight Committee:

Ecology meets quarterly with its Financial Advisory Committee to review and discuss ongoing and emerging Revolving Fund program issues. Ecology also meets twice a year with its internal Executive Oversight Committee to review program status, fund management, and emerging issues.

Perpetuity:

Ecology 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 to ensure that it 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.

The Revolving Fund weighted interest rate continues to trend upward. For the SFY11 funding cycle, the weighted, average interest rate for new projects is 2.8 percent and the total portfolio weighted, average interest rate is 2.02 percent. The weighted interest rate for the portfolio in SFY10 was 1.99 percent.

The weighted interest rate is calculated using all loans in the portfolio. The interest rate distribution of Revolving Fund is shown in Table 8.

Table 8 - Interest Rate Distribution of the Revolving Fund

Loan Interest Rate	Assistance Amount	Percent of Total Portfolio
0.0%	\$256,631,078	22.39%
0.5%	\$23,440,406	2.05%
0.6%	\$9,495,233	0.83%
1.0%	\$734,058	0.05%
1.1%	\$2,303,431	0.20%
1.3%	\$533,000	0.05%
1.4%	\$5,798,502	0.51%
1.5%	\$313,902,836	27.39%
1.8%	\$2,515,533	0.22%
2.0%	\$6,824,166	0.60%
2.1%	\$15,341,027	1.34%
2.2%	\$241,824	0.00%
2.3 %	\$1,175,000	0.10%
2.5 %	\$5,813,350	0.51%
2.6%	\$52,244,904	4.56%
2.7%	\$51,565,252	4.50%
2.8%	\$83,364,177	7.27%
2.9%	\$49,569,471	4.33%
3.1%	\$40,850,059	3.56%
3.2%	\$320,635	0.03%
3.5%	\$29,060,736	2.54%
3.8%	\$102,723	0.01%
4.0%	\$7,998,767	0.70%
4.1%	\$31,084,083	2.71%
4.3%	\$17,588,838	1.53%
4.4%	\$17,455,425	1.52%
4.5%	\$10,905,410	0.95%
4.8%	\$20,858,084	1.82%
5.0%	\$88,457,204	7.72%
Total:	\$1,145,740,610	100%

SFY11 Revolving Fund Weighted Interest Rate: 2.02 %

Financial Capability Assessment:

Ecology and the EPA agreed that Ecology would develop a credit assessment process and by SFY11 all funding applications would be subject to a financial capability assessment.

Ecology conducted financial capability assessments for all recipients of Revolving Fund loans for the SFY 2011 funding cycle. The initial information request from loan recipients is conducted by Ecology financial managers for each project using a new financial capability information checklist developed by Ecology staff. Once all of the necessary information has been received by the Ecology financial manager for a project, Ecology's Revolving Fund Planner reviews the information and produces an assessment that includes necessary special conditions or reporting requirements that are included in the loan agreement.

Program Integration:

Ecology is known for its success in integrating its major funding programs to create savings and efficiencies. Ecology is gradually integrating aspects of the new state-funded FY 2011 Stormwater Retrofit and LID Competitive Grant Program (Stormwater Program).

For example, at the date of the publication of this report, Ecology is coordinating the submittal of stormwater project technical analysis information (previously called a Pre-design Report) at the time of application. The stormwater projects do not have a "Facilities Plan" developed prior to going through a Step Process of Designing and Constructing a Facility. Therefore, Ecology is requiring this technical information at the time of application for three programs: the Revolving Fund, Centennial, and the Stormwater Program.

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.

Audit Resolution:

Ecology successfully coordinated more than the usual amount of audits due to the American Recovery & Reinvestment Act of 2009 (Recovery Act). The program is subject to annual state and federal audits. Ecology is responsive to auditor expectations and readily implements suggestions to improve the Revolving Fund Program.

Goal No. 7:

Provide public outreach to communicate major funding decisions.

• **Objectives:**

1. Conduct annual funding workshops at four locations throughout the state.
2. Conduct at least one grant and loan recipient workshop.
3. Maintain the grant and loan funding web site.
4. Provide the opportunity for public comment on funding offers, major rules, and major funding program changes.

• **Progress**

Please see Goal 4 for more information on this goal.

Ecology held four annual funding workshops and two Recipient Trainings for the SFY11 annual funding cycle.

Annual Funding Cycle Workshops:

Spokane, WA – September 15, 2009
Ellensburg, WA – September 16, 2009
Tacoma, WA – September 23, 2009
Everett, WA – September 29, 2009

Recipient Training:

Moses Lake, WA – July 20, 2010
Lacey, WA – July 22, 2010

Goal No. 8:

Encourage local governments to develop and implement projects under Green Project Reserves (GPR) through the Revolving Fund.

• **Objectives:**

1. Continue to provide additional Revolving Fund subsidies for water quality improvement efforts that qualify under the GPR category. Provide at least 20 percent of the Revolving Fund Capitalization Grant from the EPA to GPR projects as required by the federal Appropriations Act of 2010.
2. Disseminate and share GPR guidance information received from EPA with clients and stakeholders as quickly as possible to help facilitate quality GPR projects.
3. Participate in EPA-sponsored GPR Webcasts and other applicable GPR meetings.

• **Progress:**

Ecology gave a comprehensive presentation on GPR requirements during the funding application workshops. The application was also changed to provide more information about GPR, which allowed applicants to pinpoint potential types of GPR projects to pursue.

Ecology staff attended most (possibly all) of the GPR Webcasts.

Goal No. 9:

Ensure availability of Centennial grant and Revolving Fund loan funding for on-site septic repair and replacement local loan programs.

• **Objectives:**

1. Set aside Centennial grant dollars, if required by the Washington State Legislature, for local governments to implement a local loan program.
2. Continue to leverage the Revolving Fund and the Centennial Program by offering grants in conjunction with Revolving Fund loans to develop and operate on-site septic system repair and replacement programs.
3. Continue to offer reduced interest rates to local governments who target loans to financially distressed homeowners and business owners as defined in program guidelines.

4. Review, and update if necessary, program guidance and administrative rules to reflect emerging needs.
5. Work closely with local governments who run successful local loan programs to learn about what does and does not work.

- **Progress**

The Washington State Legislature did not require a special set aside for on-site septic repair and replacement for SFY11. However, Ecology continues to provide funding from the Centennial Program as grants to leverage the Revolving Fund. In addition to providing approximately \$1.26 million in Centennial funding for on-site repair and replacement projects in SFY11, Ecology reduced the interest rates of two on-site Revolving Fund loans to reflect local loans targeted to financially distressed homeowners. The interest rate for Island County, L1000007, was reduced from 1.3 percent to 1.1 percent and the interest rate for Skagit County, L1000010, was reduced from 2.6 percent to 2.4 percent.

Ecology's On-Site Program coordinator continues to provide one-on-one technical assistance to funding applicants and recipients as well as coordination with stakeholders, such as Cascadia Enterprise, and the Washington State Department of Health.

Goal No. 10:

Ensure availability of funding for stormwater projects.

- **Objectives:**

1. Set aside Centennial grant dollars, if required by the Washington State Legislature, to fund stormwater projects.
2. Begin the process to update the Centennial and Revolving Fund stormwater hardship criteria to better reflect emerging needs.
3. Continue to provide essential information to the Washington State Legislature regarding emerging stormwater issues that support future funding.
4. Work with the Puget Sound Partnership to identify projects that best achieve the goals of the Puget Sound Action Agenda.
5. Administer Stormwater Retrofit & Low Impact Development Program to leverage funding in coordination with other funding programs.

- **Progress**

The Washington State Legislature did not set aside Centennial dollars to fund stormwater. However, the Legislature is prioritizing stormwater cleanup effort through the funding of a new stormwater program; SFY11 Statewide Stormwater Grant Program. Ecology worked closely with legislative staff and provided essential information about stormwater issues. At the publication date of the report, the Legislature has appropriated, in several Capital Budgets, approximately \$100 million to fund a new stormwater program, which is administered alongside the Revolving Fund. Ecology also actively markets the use of Revolving Funds for stormwater projects as well.

For more information on stormwater, see "Program Integration" under Goal #6.

Goal No. 11:

Ensure the availability of Centennial grant and Revolving Fund loan funding for nonpoint source pollution control projects (CWA Section 319).

Objectives:

1. Set aside Centennial grant dollars, if required by the Washington State Legislature, to fund nonpoint pollution projects.
2. Set aside 20 percent of the available Revolving Fund to fund nonpoint pollution projects.
3. Work with the Puget Sound Partnership to identify projects that best achieve the goals of the Puget Sound Action Agenda.

Progress

Ecology's rule allows the use of at least 1/3, and up to 2/3 of available Centennial funding for nonpoint projects. Also, 20 percent of the Revolving Fund is set aside for nonpoint projects. In SFY11 Ecology funded \$5.1 million in nonpoint from the Revolving Fund. The demand for Revolving Fund nonpoint category project is low. This is likely because nonpoint projects typically do not generate revenue to repay the loan and the GPR category also includes nonpoint-type efforts.

Goal No. 12:

Incorporate changes and emerging needs into a comprehensive, long term rulemaking process where possible.

Objectives:

1. Enter the formal rulemaking process in SFY 2011.
2. Coordinate rulemaking activities and issues with clients and stakeholders, including other state and federal agencies.

Progress**Permanent Rulemaking Process:**

Ecology entered the permanent rulemaking process in SFY11. At the publication date of the report Ecology adopted the permanent rule amendments.

The purpose of the permanent rule amendments is to amend Chapter 173-98 WAC to establish funding categories, ceiling amounts, and project eligibility for Green Project Reserves projects (energy and/or water efficient, green infrastructure, and environmentally innovative) and forgivable principal loans (loans that do not have to be paid back) as part of the Revolving Fund.

The rule also includes proposed amendments to Chapter 173-95A WAC that will maintain consistency between the Revolving Fund and the state Centennial Program rules.

Rulemaking Public Hearings:

Public hearings were held on July 26, 2011 at 2:00 p.m. at the following locations:

- Ecology Headquarters Office – Lead site (video conference with other sites)
- Spokane
- Ecology Eastern Regional Office
- Yakima

Program Changes & Development

Discussion

This report covers the SFY11 funding cycle that ended on June 30, 2011, which is approximately six months before the issuance of this report. However, important program development efforts often span multiple fiscal years. The Revolving Fund program continues to grow and change. This section is meant to better frame ongoing efforts that span multiple funding cycles, including the enactment and implementation of the Recovery Act.

Permanent rulemaking process

In SFY11 Ecology entered the permanent rulemaking process to amend Chapter 173-98 WAC. The purpose of the new rules is to amend to establish funding categories, ceiling amounts, and project eligibility for Green Project Reserves (energy and/or water efficient, green infrastructure, and environmentally innovative) and forgivable principal loans (loans that do not have to be paid back) as part of the Revolving Fund.

The rule also includes proposed amendments to Chapter 173-95A WAC that will maintain consistency between the Revolving Fund and the state Centennial Clean Water Fund (Centennial) rules.

Changes in how Ecology draws the Capitalization Grant

In SFY11, Ecology implemented a new method for drawing funds from the Capitalization Grant. The new method will be implemented in SFY12.

Previously, Ecology specified the source of funding in each Revolving Fund loan agreement; federal or state. Ecology made draws on the Capitalization Grant according to the funding agreement. For example, if the funding agreement stated that 80 percent of the funding was federal and 20 percent was state, Ecology would draw down the Capitalization Grant and state dollars accordingly. This resulted in a large cash balance of the Capitalization Grant to build in the federal treasury. The high cash balance in the federal treasury created concern for the EPA as it appeared to the U.S. Congress that Washington State did not “need” its Revolving Fund appropriation. It also resulted in lost revenue for the Revolving Fund because the large cash balance in the Federal Treasury earned interest for the federal government and not the Revolving Fund.

Starting in SFY12, Ecology will not specify the source (federal or state) of funding in loan agreements. When a Revolving Fund loan recipient requests reimbursement for eligible costs on a project, Ecology will first draw on the Capitalization grant and associated state match. This will reduce the cash balance in the federal treasury for the unused Capitalization Grant and increase the cash balance in the state treasury, which will also increase the amount of interest earned on investments for the Revolving Fund.

Recovery Act

The Revolving Fund program underwent significant changes in SFY10 primarily due to new requirements imposed under the Recovery Act. Implementation of the Recovery Act continued in SFY11 with project monitoring and federal and state audits. All Recovery Act projects were placed on Ecology's increased oversight list. The following is a list of Recovery Act project status as of June 30, 2011.

Table 9 - Recovery Act Project Completion Status

NAME	LOAN NO.	CLOSED/OPEN
Airway Heights, City of	L0900007/L09S0007& L0900008	Open
Arlington, City of	L1000024/L10S0024 & L1000025	Open
Bremerton, City of	L1000019/L10S0019	Open
Bremerton, City of	L1000020	Open
Clark County	L1000012	Open
Cowlitz County	L1000021/L10S0021	Open
Kittitas, City of	L1000017/L10S0017	Open
LOTT	L1000016	Closed
Mason County	L1000026/L10S0026 & G1000346	Open
Olympia, City of	L1000008	Open
Raymond, City of	L10S0029 & L100028	Open
Richland, City of	L1000013	Open
Rock Island, City of	L1000031 & L10S0032	Open
Seattle Public Utilities	L1000027	Open
Spokane Public Works	L1000011	Closed
Tacoma Public Works	L1000007	Open
Uniontown, Town of	L10S0005 & L1000006	Open

Grants & Contracts Payable System

In early 2011, the Financial Management Section (FMS) 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. The PRISM system is a grant and loan tracking tool. This is an ongoing effort as described in the Executive Summary of this report.

Account Financial Status

Binding commitments & 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 10 shows that Ecology has met this requirement.

Table 10 - Binding Commitments with Respect to Federal Grant Payments

		Percent of Cap Grant under Binding Commitment within Required Timeframe
Cumulative Capitalization Grant received ending June 30, 2009	\$614,029,306	
Cumulative Binding Commitment Required by June 30, 2009	\$736,835,167	120%
Actual Cumulative Binding Commitments ending June 30, 2009, including match & principal and Interest repayments	\$1,116,546,363*	151%

Note: This amount was derived from adding the SFY11 binding commitments to the cumulative binding commitments listed in this section for last year's annual report (SFY10).

Table 11 includes the date in which Ecology fully executed a binding commitment for projects on the SFY11 IUP.

Table 11 - Project List with Binding Commitment Date

Applicant	Project Name	Binding Commitment Date
Lake Stevens Sewer District	Sunnyside Wastewater Facilities	4/27/2011
Airway Heights, City of	Septic Tank Elimination Project Facility	6/3/2011
Albion, Town of	Wastewater Collection System Improvement Project	Letter Commitment 6/27/2011
Camas, City of	Phase II WWTF Improvements	1/10/2011
Centralia, City of	Centralia 2009 I&I Reduction Project	3/10/2011
Fircrest, City of	Relocation of Backyard Sewer Mains-Phase II	6/22/2011
Fircrest, City of	Relocation of Backyard Sewer Mains-Phase I	6/22/2011
Island County Health Department	On-Site Repair Financial Assistance Program	1/26/2010
Kennewick, City of	Wellhead Area Retrofit & Protection Project Phase I	3/8/2011
Kennewick, City of	Kennewick LID Manual and Demonstration Project	4/21/2011
Kettle Falls, City of	Wastewater Treatment Facility Project	1/10/2011

Applicant	Project Name	Binding Commitment Date
King County DNRP- Wastewater Treatment Division	Ballard Siphon Project	3/4/2011
Longview, City of	West Longview Sewer Diversion Project	12/20/2010
Mason County	Belfair Wastewater and Reclamation Facilities - Const.	6/24/2011
Pacific, City of	White River Treatment BMP Project	3/10/2011
Rosalia, Town of	Wastewater Treatment Plant Facility Plan Project	12/23/2010
Skagit County	Skagit County Non-point Repair Fund	5/13/2011
Spokane, City of	CSO Basin 10 Abatement Project	6/30/2011
Thurston County Department of Public Works	Woodland Creek Estates Sanitary Sewer Project	12/13/2010
Yakima, City of	Yakima POTW "Green" Cogeneration Project	4/17/2011

Financial statements

The exhibits provided at the end of this report present the unaudited financial statements for the Revolving Fund SFY11 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 all loan recipients before signing the funding agreements. The financial capability assessment process continues to improve based on experience evaluating financial indicators and risk factors.

The information obtained for the assessment will inform Ecology staff for the subsequent funding cycle with the goal of continually improving the process.

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.

In SFY11, the financial capability assessment results revealed one entity whose internal accounting system and controls were inadequate. Instead of signing a Revolving Fund loan, Ecology issued a letter of funding commitment and gave the entity four months to improve its financial standing.

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 13-20 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 SFY11 the state of Washington disbursed all cash draws and other available Revolving Funds in a timely and expeditious manner.

16. Eligible Activities of the Revolving Fund:

All projects funded were for eligible activities of the Revolving Fund.

17. Disadvantaged Business Enterprise Requirement (DBE):

All Revolving Fund recipients were required to follow DBE objectives according to federal and state law. Ecology will comply with the Revolving Fund Operating Agreement regarding the DBE requirement and require loan recipients to document if they are meeting these goals.

18. 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.

19. State Environmental Review Process (SERP):

In SFY11 Ecology hired a full-time SERP coordinator whose responsibility is to update the procedures and documentation used for the State Environmental Review Process (SERP). The SERP is used by Ecology to ensure that federal environmental cross cutters are complied with. At the date of this publication, the SERP procedures have been updated. The final draft of the SERP and cross-cutter guidance was submitted to the EPA for review and approval in June 2011.

20. Cash Draw Procedures:

Exhibit 2 shows the amount disbursed to loan recipients for projects and to Ecology for program administrative costs. It also details the draws for the federal and state shares and the federal share as a percent of disbursements.

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Exhibits

(The following exhibits contain the acronym “SRF,” which is a reference the Revolving Fund)

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 1 – Projects Receiving Assistance

June 30, 2011

Applicant	Project Name	Loan Activity	Standard Facility Loan	Facility Forgivable Principal	Standard Loan	Forgivable Principal
Spokane County	Regional Water Reclamation Facility	0	0	0	0	0
Blaine, City of	Lighthouse Point Water Reclamation Facility Project	0	0		0	0
Thurston County Department of Public Works	Woodland Creek Estates Sanitary Sewer Project	0	1,227,780	0	0	0
Rosalia, Town of	Wastewater Treatment Plant Facility Plan Project	0	501,903	403,247	134,925	134,925
Kettle Falls, City of	Wastewater Treatment Facility Project	0	5,802,000	3,999,027	0	0
King County DNRP-Wastewater Treatment Division	Ballard Siphon Project	0	31,850,000		0	0
Rock Island, City of	Wastewater Treatment Facility Project	0	0	0	0	0
Centralia, City of	Centralia I&I Reduction Project	0	3,386,994	2,220,612	0	0
Longview, City of	West Longview Sewer Diversion Project	0	12,651,515	0	0	0
Camas, City of	Phase II WWTF Improvements	0	3,300,000	0	1,771,650	1,771,650
Island County Health Department	On-Site Repair Financial Assistance Program	2,000,000	0	0	0	0

Applicant	Project Name	Loan Activity	Standard Facility Loan	Facility Forgivable Principal	Standard Loan	Forgivable Principal
Whatcom County	Whatcom County Septic Loan Program	0	0	0	0	0
Mason County	Belfair Wastewater and Reclamation Facilities - Const.	0	2,525,356	0	616,500	616,500
Kittitas County Public Health Department	Kittitas County Septic Replacement Project	0	0	0	0	0
Skagit County	Skagit County Non-point Repair Fund	0	0	0	250,000	250,000
Yakima, City of	Yakima POTW "Green" Cogeneration Project	0	0	0	503,558	503,558
Pacific, City of	White River Treatment BMP Project	2,069,000	0	0	0	0
Oak Harbor, City of	42-inch Outfall Reconstruction Project	0	0	0	0	0
Kennewick, City of	Wellhead Area Retrofit & Protection Project Phase I	690,000	0	0	0	0
Milton, City of	City Center Storm Drainage Retrofit Project	0	0	0	0	0
Kennewick, City of	Kennewick LID Manual and Demonstration Project	390,000	0	0	0	0
Pierce County Public Works and Utilities	Stormwater Retrofit 192nd Street East LID Project	0	0	0	0	0
Spokane County	Spokane Co. Regional WWTF	0	0	0	0	0
Airway Heights, City of	Septic Tank Elimination Project Facility		379,684	133,316	0	0

Applicant	Project Name	Loan Activity	Standard Facility Loan	Facility Forgivable Principal	Standard Loan	Forgivable Principal
Lake Stevens Sewer District	Sunnyside Wastewater Facilities	0	5,262,417	0		
Mabton, City of	General Sewer Plan/ Wastewater Facility Plan	0	0	0	0	0
Albion, Town of	Wastewater Collection System Improvement Project	0	511,900	0	0	0
Spokane, City of	CSO Basin 10 Abatement Project	0	1,152,000	0	0	0
Goldendale, City of	Little Klickitat River Sewer Line Project	0	0	0	0	0
Fircrest, City of	Relocation of Backyard Sewer Mains-Phase II	0	5,000,000		0	0
Fircrest, City of	Relocation of Backyard Sewer Mains-Phase I	0	7,633,500	0	0	0
	Total Offered	5,149,000	81,185,049	6,756,202	3,276,633	3,276,633

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 2 - Disbursements and Accruals

June 30, 2011

	SFY 2011	Federal	State
2011 DISBURSEMENTS FOR LOANS	\$7,347,005	\$6,122,267	\$1,224,738
2011 DISBURSEMENTS FOR ADMIN	\$1,091,067	\$909,178	\$181,889
TOTAL DISBURSEMENTS	\$8,438,072	\$7,031,445	\$1,406,627
2011 CASH DRAW FROM CAPITALIZATION GRANTS	(\$7,031,445)		
2011 STATE MATCH (20% of CASH DRAWS)	\$1,406,627		
2011 100% STATE FUNDS DISBURSEMENTS	\$21,515,958		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$29,954,030		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.33%		
ADMIN CALCULATION		4%	

NOTE: ARRA is not on this report 100% Federal

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 3 - Net Assets & Balance Sheet

	2011	2010
Assets:		
Current assets:		
Cash and cash equivalents	66,238,980	43,802,360
Receivables:		
Due from federal government	2,097,062	135,793
Interest on SRF loans	1,954,626	1,613,425
Other Receivables	1,064	0
Due from other funds	416,656	322,664
Total receivables	4,469,408	2,071,881
Collateral Held/Security Lending Agreements	0	0
Current maturities of SRF loans	34,879,814	32,290,445
Total current assets	105,588,201	78,164,686
Loans receivable, net of current maturities	602,732,440	605,282,488
Total assets	708,320,641	683,447,174
Liabilities and Fund Equities:		
Current liabilities:		
Due to Federal Government	2,312,415	216,573
Accounts payable and accrued expenses	98,364	117,824
Due to other funds	65,714	80,880
Obligation Under Security Lending Agreement	0	0
Construction costs payable	4,927,071	9,957,094
Total current liabilities	7,403,564	10,372,371
Net Assets:		
Restricted	700,917,076	673,074,803
Total liabilities and net assets	708,320,640	683,447,174

The accompanying notes are an integral part of the financial statements

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 4 - Statement of Revenue, Expenditure Equity

	2011	2010
Operating Revenues:		
Interest income on SRF loans	\$10,577,253	\$9,947,720
Operating Expenses:		
Salaries and benefits	\$1,094,312	\$1,246,189
Supplies	\$22,498	\$24,666
Travel	\$18,132	\$13,477
Indirect costs	\$345,136	\$461,915
Contracts	\$0	\$0
Equipment	\$0	\$294
Total operating expenses	\$1,480,079	\$1,746,541
Operating income (loss)	\$9,097,174	\$8,201,178
Nonoperating Revenue (Expenses)		
Transfer In	\$0	\$259,897
Interest on investments	\$403,453	\$701,794
Funds received from EPA	\$40,713,787	\$40,261,921
Funds received from State of Washington	\$1,381,837	\$3,567,694
Immaterial Adjustments to Prior Period	\$0	\$2
Loan Principal Forgiven	(\$23,753,979)	(\$10,189,912)
Total nonoperating revenue	\$18,745,099	\$34,341,500
Change in net assets	\$27,842,273	\$42,802,575
Net assets, beginning of year	\$673,074,803	\$630,272,227
Net assets, end of year	\$700,917,076	\$673,074,803

The accompanying notes are an integral part of the financial statements

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 5 - Comparative Statement of Cash Flows

	2011	2010
Cash Flows from Operating Activities:		
Receipts from customers	\$9,352,470	\$9,442,837
Payments to employees and suppliers	(\$1,198,874)	(\$1,802,966)
Forgivable Principal Loans Disbursements	(\$23,753,979)	(\$10,189,912)
Loans Disbursements	(\$38,385,107)	(\$68,891,007)
Repayments on loans	\$34,199,346	\$32,696,324
	(\$19,786,144)	(\$38,744,724)
Cash Flows from Non-capital Financing Activities:		
Funds received from EPA	\$40,824,325	\$40,660,446
Transfers from other State funds	\$972,313	\$3,584,881
Transfer out from IT Project	\$0	\$0
Net cash provided (used) by non-capital financing activities	\$41,796,637	\$44,245,327
Cash Flows from Investing Activities:		
Receipts from interest on investments	\$426,126	\$728,193
Net cash provided (used) by investing activities	\$426,126	\$728,192
Net cash provided (used)	\$22,436,620	\$6,228,795
Cash and cash equivalents, beginning of year	\$43,802,360	\$37,573,564
Cash and cash equivalents, end of year	\$66,238,980	\$43,802,359
Excess of revenue over expenses (Net Income)	\$9,097,174	\$8,201,178
(Increase) decrease in interest on SRF loans	(\$341,201)	\$6,425
(Increase) decrease in current maturities of SRF loans	(\$883,582)	(\$511,308)
(Increase) decrease in loans receivable (net)	\$34,199,346	\$32,696,324
(Decrease) increase in payables	(\$38,103,903)	(\$68,947,432)
(Decrease) increase in forgivable principal loan payable	(\$23,753,979)	(\$10,189,912)
Net cash provided (used) by operating activities	(\$19,786,144)	(\$38,744,724)

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

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 6 – Notes to Financial Statements

The accompanying notes are an integral part of the financial statements

1. Summary of Significant Accounting Policies

Reporting Entity

Washington's Water Pollution Control Revolving Account (The Account) was established pursuant to Title VI of the Federal Water Quality Act of 1987 (the Act) and RCW 90.50A.020. The Act established the State Revolving Fund (Revolving Fund) program to replace the construction grants program. The Washington State Department of Ecology (ECY) 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 \$579,896,697 in capitalization grants from 1989 through June 30, 2011. The State match share for that awarded amount is \$102,348,959. 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 ECY 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 that provide management of the Account do not have control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Loans Receivable

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.

Forgivable Principal

In SFY11, as a requirement of the FY Appropriations Act, Ecology awarded \$10,109,134 in forgivable principal, which exceeded the minimum requirement of \$5,306,739.

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, 2011, total Treasurer’s invested balance of the Treasury/Trust Fund Portfolio was \$3.6 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, 2011	\$66,238,980	\$66,238,980

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 2011 were established at 1.4 percent for up to a five year-term and 2.8 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 SFY11 no zero percent loans were made. As of June 30, 2011, the Account had made zero-interest-rate loans for approximately \$256,631,078 million to communities with severe financial hardship. This represents 22.4% 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, 2011, are summarized below:

Loans by Category:

Loans receivable by project status at June 30, 2011 are as follows:

	Loan Authorized	Remaining Commitment	Outstanding Balance
Completed projects	739,276,202	0	525,957,922
Projects in progress	215,355,723	108,608,676	106,747,047
Totals			632,704,969
Payment requests in progress (Received as of June 30, 2011, but not yet paid)			4,927,071
Less Amount Due in one year			(34,879,814)
Loans receivable, June 30, 2011 (Net of current maturities)			602,752,226

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

Year ending June 30:	Amount
2012	45,292,362
2013	45,149,532
2014	45,064,425
2015	44,986,381
2016	43,157,619
Thereafter	366,333,020
	\$589,983,339

Loans to Major Local Entities:

As of June 30, 2011, 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 79 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>
Alderwood Water & Wastewater Dist	9,016	251	8,366	8,324
City of Airway Heights	10,389	236	8,517	8,402
City of Arlington	14,558	400	13,457	13,457
City of Bremerton	9,523	151	9,606	7,478
City of Camas	9,292	720	10,012	5,586
City of Centralia	34,416	0	34,416	23,637
City of Chehalis	35,343	44	35,388	28,742
City of Cheney	12,929	1	12,930	11,265
City of Kalama	6,841	54	6,895	5,476
City of Kennewick	9,693	674	10,368	5,059
City of Mt. Vernon	18,785	764	19,549	17,076
City of Pasco	22,726	2,284	25,011	12,569
City of Sequim	10,864	136	11,000	7,474
City of Stanwood	9,068	0	9,068	6,313
City of Sunnyside	12,377	0	12,377	10,155
City of Tacoma	73,848	1,952	75,652	67,942
City of Toppenish	12,158	0	11,861	10,478
City of Walla Walla	13,389	831	14,220	7,798
City of Wenatchee	7,195	197	7,392	6,061
City of Winlock	6,635	4	6,638	5,941
King Co. Dept. Nat. Resources	106,097	3,222	109,318	83,550
King Co. Wastewtr. Treat. Div.	26,769	103	26,872	19,828
Kitsap County Public Works	10,173	178	10,351	7,683
Kitsap County Sewer District	1,772	61	1,834	585
Lake Stevens Sewer District	39,940	2,101	38,047	37,859
Lott Wastewater Alliance	67,707	6,013	73,719	37,296
Mason County	17,585	211	17,557	11,826
Seattle Public Utilities	10,067	305	10,205	9,878
Spokane County	19,140	94	19,234	14,126
Spokane County Conservation District	17,323	375	12,744	10,822
Total	<u>\$655,618</u>	<u>\$21,361</u>	<u>\$662,604</u>	<u>\$502,686</u>

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

4. **Funds from EPA and the State of Washington**

The Account is funded by grants from EPA authorized by the Clean Water Act and by matching funds from the State. All funds drawn are recorded as non-operating revenue from the EPA and Washington State. Since 1989, EPA has awarded a total of \$579,897 in grants to the State, of which \$500,191 has been drawn for loans and administrative expenses. The State has provided a total of \$88,760 in matching funds for that total drawn amount. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

(Figures are in Thousands)

Grant <u>Year</u>	Grant <u>Amount</u>	Draws through SFY <u>2010</u>	<u>2011 Draws</u>	Draws through SFY <u>2011</u>	Available SFY <u>2011</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	26,347	0	26,347	0
2007	19,410	3,343	6,122	9,465	9,945
2008	11,834	170	224	394	11,440
2008 (ARRA)	68,152	22,719	33,682	56,401	11,751
2009	11,834	13	381	394	11,440
2010	35,433	0	303	303	35,130
	<u>\$579,897</u>	<u>\$459,479</u>	<u>\$40,712</u>	<u>\$500,191</u>	<u>\$79,706</u>

As of SFY 2011, State matching contributions were:

	<u>SFY 2010</u>	<u>2011 Contribution</u>	<u>SFY 2011</u>
Washington State Matching Contributions	<u>\$87,354</u>	<u>\$1,406</u>	<u>\$88,760</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.

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 7 - REVOLVING FUND Project Environmental Benefits Reporting

Borrower	Loan Number	Initial Amount	Initial Agreement Date
Airway Heights, City of	L1100011	\$513,000.00	06/03/2011
Camas, City of	L1100005	\$6,843,300.00	01/10/2011
Centralia, City of	L1100007	\$5,607,606.00	03/10/2011
Fircrest, City of	L1100018	\$7,633,500.00	06/22/2011
Fircrest, City of	L1100019	\$5,000,000.00	06/22/2011
Island County	L1100002	\$2,000,000.00	01/26/2011
Kennewick, City of	L1100010	\$690,000.00	03/08/2011
Kennewick, City of	L1100015	\$390,000.00	04/21/2011
Kettle Falls, City of	L1000036	\$9,248,098.00	01/10/2011
King County Dept. of Nat. Resources and Parks	L1100009	\$31,850,000.00	03/04/2011
Lake Stevens Sewer District	L1100012	\$5,262,417.00	04/27/2011
Longview, City of	L1100001	\$12,651,515.00	12/20/2010
Mason County	L1100013	\$3,758,356.00	06/24/2011
Pacific, City of	L1100006	\$2,069,000.00	03/10/2011
Rosalia, Town of	L1000037	\$1,175,000.00	12/23/2010
Skagit County	L1100016	\$500,000.00	05/13/2011
Spokane, City of	L1200001	\$1,152,000.00	06/30/2011
Thurston County Public Works	L1100004	\$1,227,780.00	12/13/2010
Yakima, City of	L1100008	\$1,007,116.00	04/12/2011
Total Loan Amount for the Period:	(7/2010 - 6/2011)	\$98,578,688.00	

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STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT

Exhibit 8 - 4% Administration Allowance

Grant #	Federal Award	Admin Max 4%	Spent through SFY11	Balance Remaining SFY11
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	473,346.72	0.00
2W-96091001	68,151,900.00	2,726,076.00	1,321,622.25	1,404,453.75
CS-530001-09	11,833,668.00	473,346.72	473,346.72	0.00
CS-530001-10	35,433,000.00	1,417,320.00	363,512.84	1,053,807.16
Grand Total	579,896,697.00	23,195,867.88	20,737,606.97	2,458,260.91

4% of Total Federal = ADMIN CAP

The accompanying notes are an integral part of the financial statements