



Annual Report

Washington State Water Pollution Control Revolving Fund

*Washington State Water Pollution Control
Revolving Account*

For State Fiscal Year 2012
July 1, 2011 - June 30, 2012

Submitted to the
U.S. Environmental Protection Agency

October 2012
Publication no. 12-10-047



Publication and Contact Information

This report is available on the Department of Ecology's website at <https://fortress.wa.gov/ecy/publications/SummaryPages/1210047.html>

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Washington State Water Pollution Control Revolving Fund

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Introduction

In accordance with the Operating Agreement between the Environmental Protection Agency (EPA) and the Department of Ecology (Ecology), Ecology is solely responsible for managing 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.

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 over the past few years. 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 federal and state directives.

Sources of funds

The Revolving Fund is capitalized with annual grants from EPA and a required 20 percent state match. Ecology retains four percent of each capitalization grant for administration expenses as allowed by the federal Clean Water Act (CWA).

Each year Ecology combines the EPA capitalization grant with the state match, principal and interest repayments received, and any de-obligated or declined funds to provide loans to public bodies for water quality projects across the state. Most of the funding available consists of principal and interest repayments.

Uses of funds

The Revolving Fund is a key funding source used to advance the water quality goals of EPA and Ecology's Water Quality Program (WQP). The goal of the WQP and the Revolving Fund is to prevent and clean up water pollution and help communities make sustainable choices by providing technical and financial assistance for high priority water quality efforts.

Ecology ensures that funded projects are consistent with the goals of Section 212, 319, and 320 of the CWA, including the State's Section 320 Estuary Plan (Puget Sound Action Agenda), and Washington Water Quality Management Plan to Control Nonpoint Source Pollution.

Ecology manages the Revolving Fund along with the state-funded Centennial Clean Water Program (Centennial) and the CWA Section 319 Nonpoint Source Grant Program (Section 319). Every attempt is made to integrate and streamline the three funding programs. This provides significant program savings and efficiencies for both Ecology and clients and stakeholders.

State fiscal year and federal fiscal year

Washington State has a biennial budget cycle that spans two fiscal years and includes two funding cycles. The State's fiscal year runs from July 1 – June 30. The federal fiscal year runs from October 1 – September 30. Due to the differences in the fiscal years and budget 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 appropriations authorizing

Ecology to utilize the funds. So the federal fiscal year 2011 (FFY11) capitalization grant is administered in the state fiscal year 2012 (SFY12) funding cycle.

What's in this report

This report discusses how Ecology administered the Revolving Fund FFY11 capitalization grant, state match, and principal and interest repayments during SFY12. SFY12 covers part of FFY11 and FFY12. Specifically this report does the following:

- Describes Ecology's and the WQP's goals and objectives and discusses progress made toward meeting them.
- Lists several key conditions of the Operating Agreement and FFY11 Capitalization Grant and provides details on how Ecology met them.
- Describes two significant changes to the program made during SFY12.
- Provides a Management Discussion and Analysis introducing the Revolving Fund financial statements.
- Includes several exhibits containing the unaudited financial statements of the Revolving Fund for SFY12.

Ecology and the Water Quality Program's Goals and Objectives and Progress Made

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

- Prevent and clean up water pollution.
- Help communities make sustainable choices that reduce and prevent water quality problems.
- Provide water quality partners with technical and financial assistance for high priority water quality projects.

The following ten short- and long-term goals help achieve the overall mission of Ecology and the WQP through the financial assistance programs.

Goal 1

Identify and fund the highest priority water quality projects statewide.

Objectives and progress

- 1) Coordinate with internal, regional Ecology experts to identify water quality benefits on an ongoing basis.
 - Regional project managers and engineers review and evaluate funding applications. Ecology holds mandatory internal evaluator training sessions each year to ensure consistency and funding of the highest priority water quality projects. Ecology also holds a post-project evaluation meeting to further disseminate information before tabulating the final scores.
 - Ecology project managers work closely with the Financial Management Section at Ecology's Headquarters, staff specializing in Total Maximum Daily Loads (TMDL), permitting staff, and the Watershed Unit during the review and evaluation process.
- 2) Coordinate with EPA, Puget Sound Partnership, advisory groups, and state, federal, and local governments for input in major decisions affecting water quality benefits.
 - Ecology evaluates and assesses its funding application each year before opening the application cycle to ensure it reflects the current state and federal priorities.
 - Ecology provides project proposals to numerous external stakeholders for review and comment prior to developing the Draft Funding Offer List and Intentional Use Plan (Draft IUP) and project priorities. External stakeholders consulted include, but are not limited to, the following: Puget Sound Partnership, Washington State Conservation Commission, and Washington State Department of Health (DOH).
- 3) Require that funded projects implement actions identified in the Washington Nonpoint Plan, the Puget Sound Action Agenda, or other approved water quality plans.

- Ecology requires projects to be consistent with applicable approved water quality plans, including, but not limited to the following: Puget Sound Action Agenda, Washington’s Water Quality Management Plan to Control Nonpoint Sources of Pollution.
- 4) Coordinate and communicate effectively with EPA.
- Ecology staff and management regularly consult and coordinate with EPA to ensure our funding programs and funding agreements are addressing key EPA priorities. Part of that communication includes soliciting comments from EPA on the Draft IUP.

Goal 2

Provide financial assistance to communities statewide 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 and progress

- 1) Provide priority rating consideration for communities to meet state and federal requirements for wastewater and stormwater facilities.
 - In its rating system, Ecology awards up to 10 percent (100 points) of the total rating points based on how a proposal meets state and federal requirements.
- 2) Reduce and prevent nonpoint sources of pollution from impacting state waters using appropriate best management practices.
 - In SFY12 Ecology set aside 20 percent of Revolving Fund, 33 percent of Centennial grant dollars, and 100 percent of Section 319 grant dollars to provide funding for activity projects that seek to reduce or prevent nonpoint sources of pollution.

Goal 3

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

Objectives and progress

- 1) Continue to involve stakeholders and clients in major funding program development, including the rule development, program guidance, and application process.
 - In SFY12 Ecology completed a significant rule-writing effort for Chapter 173-98 WAC (Revolving Fund rule) and Chapter 173-95A WAC (Centennial rule). An integral part of the rule-writing process was to solicit and consider comments and recommendations from stakeholders and clients.
 - Ecology regularly requests comments and feedback from stakeholders and clients on potential improvements to its funding guidelines 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.
 - Ecology organized and attended quarterly meetings with the Financial Assistance Council (FAC) to review and discuss ongoing and emerging Revolving Fund program issues.

- 3) Work closely with Ecology’s Revolving Fund Executive Oversight Committee that meets on a regular basis.
 - Ecology held two meetings of its internal Revolving Fund Executive Oversight Committee. Among the issues discussed were: program status, fund management, and emerging issues regarding efforts to pass new State Revolving Fund Administrative Charge Legislation and coordination with other funding programs in Washington State.
- 4) Review the funding application and evaluation process to help ensure consistent and objective rating and ranking of project proposals.
 - Ecology assesses its funding application and evaluation process each year and makes revisions as needed. Among the goals of the annual assessment effort is to ensure an increasingly consistent and objective rating and ranking process. Table 1 shows how Ecology allocates points for project proposals during the evaluation process.

Table 1: Application Point Allocation in SFY12

Question	Application Questions for SFY12	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		1,000

Goal 4

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

Objectives and progress

- 1) Review and maintain financial hardship criteria to best reflect actual client and stakeholder needs, emerging environmental conditions, and the effect of sewer user fees on the ratepayer as a percentage of median household income.
 - Each year Ecology reviews and makes necessary updates to its final hardship evaluation process and criteria and its hardship application form to ensure a fair and clear approach to determining hardship status.
 - Financial hardship offers may include Centennial grants, forgivable principal Revolving Fund loans, and reduced interest rate Revolving Fund loans. Table 2 shows Ecology’s hardship continuum for Revolving Fund loans and forgivable principal. Table 3 shows the agreements signed in SFY12 involving financial hardship funding.

Table 2: Hardship and Forgivable Principal Funding Continuum for SFY12

Sewer Fee divided by Median Household Income (MHI):	<2%	≥2% but < 3%	≥3% but <5%	≥5%
Hardship Designation:	Non-hardship (low rates relative to MHI)	Moderate Hardship	Elevated Hardship	Severe Hardship (very high rates relative to MHI)
Loan Rates:	60% of municipal bond rate	40% of municipal bond rate	20% of municipal bond rate	0%
Forgivable Principal:	Not eligible	50% (up to \$5 million)	75% (up to \$5 million)	100% (up to \$5 million)

Table 3: Financial Hardship Agreements in SFY12

Agreement Number	Applicant Name	Project Title	Centennial Grant	Forgivable Principal Loan	Standard Loan
L1200002	Curlew Water & Sewer District	Curlew Wastewater Collection & Treatment System	\$2,719,891	\$4,904	\$455,205
L12S0025, L12S0025	Lind, Town of	Town of Lind Wastewater Treatment Facility	\$2,600,109	\$0	\$74,469
L1200018, L12S0018	Mason County	Belfair Water Reclamation Facilities—Get Connected	\$0	\$1,064,280	\$153,720
L1200021	Tonasket, City of	Bonaparte Creek Area Sanitary Sewer	\$0	\$1,206,000	\$50,000
Totals			\$5,320,000	\$2,275,184	\$733,394

- 2) Update the stormwater grant and loan hardship criteria to better reflect the needs of stakeholders and clients.
 - As in previous years, in SFY12 Ecology did not make Revolving Fund hardship funding available for stormwater projects. Ecology anticipated that the Washington State Legislature would appropriate funding for a stormwater grant program in its Capital Budget (which it did).
- 3) Continue to provide essential information to the State Legislature about wastewater and stormwater needs of small, rural communities.
 - Ecology sends its Draft IUP to the Legislature for consideration during budget development. The document calls out recommendations for funding for hardship communities. In order to receive hardship consideration, communities must have a population of less than 25,000. In addition to being small, most hardship communities are also rural.

Goal 5

Provide technical assistance to local governments and tribes.

Objectives and progress

- 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.

- Ecology holds quarterly meetings of its internal Facility and Activity Workgroups. The primary goal of the meetings is to further develop and maintain consistency among staff on addressing water quality issues through Ecology’s financial assistance programs.
- 2) Work closely with EPA and other federal agencies to ensure effective coordination associated with major federal environmental prerequisites required under the Revolving Fund and the Section 319 Program. Also, work closely with appropriate federal and state agencies to ensure effective coordination associated with major state environmental prerequisites.
- Ecology staff and management regularly consult and coordinate with EPA to ensure our funding programs and funding agreements are meeting all federal requirements, including environmental prerequisites.
 - Ecology also coordinates closely with other federal agencies and other state agencies to ensure the federal and state environmental prerequisites are being met. Ecology confirms compliance with federal cross cutter requirements for wastewater facility construction projects with federal agencies such as U.S. Fish and Wildlife Service, Bureau of Land Management, U.S. Forest Service, and National Oceanic and Atmospheric Administration. Ecology also coordinates with the Washington State Department of Archaeology and Historic Preservation and the Washington State Department of Commerce.
- 3) 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 (SERP), and other requirements.
- In SFY12 Ecology organized multiple workshops for applicants and recipients of funding and attended and presented at multiple conferences. At each workshop and in each conference presentation Ecology provided information on meeting major state and federal requirements. Major state and federal requirements discussed at the workshops and conference presentations included, but were not limited to, the following: SERP, federal cross cutters, federal and state cultural resources, federal and state procurement, Minority Business Enterprise/Women Business Enterprise, Davis-Bacon, and Growth Management Act.
- 4) Provide individual training to grant and loan recipients when requested.
- Ecology is responsive to the needs of clients and stakeholders. Throughout the year, Ecology provides a high level of technical assistance to clients and stakeholder, including one-on-one meetings. In addition, Ecology staff and management participate in “Tech Team” meetings during the annual Infrastructure Assistance Coordinating Council (IACC) conference. The Tech Team meetings provide multi-agency technical assistance to individual funding applicants.

Goal 6

Provide sound financial management of the funding programs and projects.

Objectives and progress

- 1) Work closely with advisory committees, EPA, and other state and federal funding agencies to leverage grant and loan funds with internal and external funding programs.
 - Ecology seeks opportunities to market the Revolving Fund and leverage grant and loan funds with other funding programs. Staff and management activities toward meeting this objective during SFY12 included, but were not limited to, the following:
 - Coordinated with DOH on funding for Large On-Site Septic (LOSS) systems.
 - Participated in the Small Communities Initiative (SCI) quarterly Steering Committee meetings. Meetings were attended by Ecology, DOH, Public Works Board, USDA Rural Development, Washington State Department of Commerce, and EPA.
 - Helped plan the annual IACC conference and participated on the IACC Board. Several staff presented information on the financial assistance programs and attended Tech Team meetings during the conference.
 - Presented information on the financial assistance programs at the annual Evergreen Rural Water of Washington (ERWoW) conference.
 - Coordinated with the Community Development Block Grant (CDBG) on funding projects.
 - Met with the Financial Assistance Council (FAC) quarterly to review and discuss ongoing and emerging Revolving Fund program issues.
 - Conducted two internal Revolving Fund Executive Oversight Committee meetings to review program status, fund management, and emerging issues.
 - Presented information on the financial assistance programs at the annual Pacific Northwest Clean Water Association (PNCWA) conference.
- 2) Continue to integrate the major funding programs.
 - Ecology is known for its success in integrating its major funding programs to create savings and efficiencies. Ecology has an integrated process for applying for funding under the Revolving Fund, Centennial, and the Section 319 programs. Benefits of an integrated process include the following:
 - Cost savings.
 - A single application for the three 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) Evaluate perpetuity of the Revolving Fund annually to ensure the long-term buying power of the fund as defined by Chapter 173-98 WAC, Use and Limitations of the Water Pollution Control Revolving Fund.

- Ecology establishes interest rates for the Revolving Fund annually. The interest rates are based on a percent of the average interest rate for tax-exempt municipal bonds for the period 30-60 days prior to the beginning of a new funding cycle as published on www.economagic.com/em-cgi/data.exe/fedbog/slbond. The interest rates for standard Revolving Fund loans in SFY12 were:
 - 1.3 percent for a five-year loan (30 percent of tax-exempt municipal bonds).
 - 2.6 percent for a 20-year loan (60 percent of tax-exempt municipal bonds).
 - Ecology monitors the Revolving Fund to ensure that it will be available in perpetuity as required by the CWA. While the CWA does not define perpetuity, Ecology defined perpetuity in Chapter 173-98 WAC as, “*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.
 - At the end of SFY12, the tax-exempt municipal bond interest rate was 3.94% and the weighted average of all Revolving Fund loans awarded to-date was 2.09% (53% of the market rate for tax-exempt municipal bonds).
- 4) Conduct financial capability assessments on new Revolving Fund loan recipients.
- Revolving Fund agreements require 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.
 - Ecology staff conducts financial capability assessments on all Revolving Fund loan agreements before final signature. Staff review information provided by applicants, including audit reports and financial statements, and produce an assessment that includes any recommended special conditions or reporting requirements to include in the agreements. The information obtained for the assessment helps inform Ecology staff for the subsequent funding cycle. The financial capability assessment process continues to improve based on experience evaluating financial indicators and risk factors.
 - Ecology also includes language in all Revolving Fund loan agreements requiring each borrower to review its rate structure at least annually and update Ecology on the progress in meeting the goals and objectives included in use ordinances, resolutions, and rate studies.
- 5) Coordinate with Ecology’s fiscal office on the overall financial management issues and to prevent and resolve possible audit issues.
- Ecology’s Revolving Fund staff regularly coordinate with Ecology’s Fiscal Office staff.
 - The Revolving Fund program is subject to annual state and federal audits (performance reviews). Ecology is responsive to auditor expectations and readily implements suggestions to improve the Revolving Fund program.
 - In addition, Ecology requires funding recipients to regularly submit audit reports and correct any findings.

- 6) 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.
 - Among the goals of the WQP are to provide our water quality partners with financial assistance for high priority water quality projects. See Table 1, above, for a listing of how rating points are allocated.

Goal 7

Provide public outreach to communicate major funding decisions.

Objectives and progress

- 1) Conduct annual funding workshops at four locations throughout the state.
 - Ecology held funding applicant training workshops at the following locations:
 - Spokane, WA (September 14, 2011).
 - Ellensburg, WA (September 15, 2011).
 - Everett, WA (September 22, 2011).
 - Lacey, WA (September 28, 2011).
- 2) Conduct at least one grant and loan recipient workshop.
 - Ecology held grant and loan recipient training workshops at the following locations:
 - Lacey, WA (July 20, 2011).
 - Moses Lake, WA (July 27, 2011).
- 3) Maintain the grant and loan funding website.
 - The grant and loan funding website (www.ecy.wa.gov/programs/wq/funding/funding.html) was updated regularly to keep the public and stakeholders abreast of funding and training opportunities and provide them with related forms and publications.
- 4) Provide the opportunity for public comment on funding offers, major rules, and major funding program changes.
 - During SFY12 Ecology developed a Draft IUP for SFY13 offers. The Draft IUP was provided to the public. Ecology held a public meeting to discuss the Draft IUP and sought additional public comment during a 30-day public comment period.
 - Ecology completed a significant rule-writing effort for the Revolving Fund and Centennial rules in SFY12. An integral part of the rule-writing process was to solicit and consider comments and recommendations from the public.

Goal 8

Encourage local governments to develop and implement high priority water quality focused on-site sewage repair and replacement local loan programs.

Objectives and progress

- 1) Continue to offer reduced interest rates to local governments who target loans to financially distressed homeowners and business owners as defined in program guidelines.
 - In SFY12 Ecology signed five Revolving Fund loan agreements for on-site sewage system (OSS) projects. For loans where the recipient will subsequently make loans to individual OSS owners for repair or replacement, Ecology will not establish a final interest rate until the project is completed. The final interest rate will be reduced if the loans were provided to lower income individuals. Table 4 shows the signed agreements for Revolving Fund loans for OSS projects.

Table 4: On-site Sewage System Project Agreements in SFY12

Agreement Number	Recipient	Project Title	Revolving Fund Standard Loan	Revolving Fund Forgivable Principal Loan
L1200028	Airway Heights, City of	Septic System Elimination Project	\$378,000	
L1200010	Northeast Tri-County Health District	Northeast Tri County Health District Sewage Disposal System	\$416,667	
L1200031	Pacific County	Pacific County On-Site Financial Repair Program	\$500,000	
L1200013, L12S0013	San Juan County Health & Community Services	On-site Repair Financial Assistance Program	\$150,000	\$150,000
L1200016	Thurston County Public Health	On-site Financial Assistance Program	\$250,000	
Totals			\$1,694,667	\$150,000

- 2) Review, and update if necessary, program guidance and administrative rules to reflect emerging needs.
 - Ecology's OSS Program Coordinator continues to provide one-on-one technical assistance to funding applicants, recipients, and other stakeholders.

Goal 9

Encourage local governments to develop and implement high priority water quality focused stormwater projects.

Objectives and progress

- 1) Continue to provide essential information to the Washington State Legislature regarding emerging stormwater issues that support future funding.
 - The 2012 Washington State Legislature provided over \$68 million to help local governments covered by a National Pollutant Discharge Elimination System (NPDES) Municipal Stormwater permit fund stormwater infrastructure projects.
 - Ecology developed a competitive grant program based on criteria outlined in the 2011-13 Biennial Capital Budget. In November 2011, Ecology received 111 applications totaling more than \$83 million in eligible project costs. Ecology's stormwater experts reviewed, rated, and ranked the applications and developed a priority list of the stormwater

improvement projects. Ecology submitted this priority list to the Legislature, demonstrating the local governments' funding needs for good stormwater infrastructure management. In addition to funding 96 high priority projects on the list, the Legislature provided funding for an additional 21 unfunded projects from the SFY11 Stormwater Retrofit and Low Impact Development Final Offer and Applicant List.

- Ecology is committed to negotiating and having fully signed agreements with recipients by November 2012.
- 2) Work with the Puget Sound Partnership to identify projects that best achieve the goals of the Puget Sound Action Agenda.
 - As a pre-requisite for receiving funding, Ecology required all projects located in the Puget Sound Watershed (defined by Water Resource Inventory Areas 1 – 19) to be in compliance with the Puget Sound Partnership's Puget Sound Action Agenda.

Goal 10

Encourage local governments to develop and implement high priority water quality focused nonpoint source pollution control projects.

Objectives and progress

- 1) Set aside at least one third of the available Centennial grant dollars to fund nonpoint pollution projects.
 - In SFY12 Ecology set aside 33 percent of the available Centennial grant fund for nonpoint source pollution control projects.
- 2) Set aside 20 percent of the available Revolving Fund to fund nonpoint pollution projects.
 - In SFY12 Ecology set aside 20 percent of the available Revolving Fund for nonpoint source pollution control projects.
- 3) Work with the Puget Sound Partnership to identify projects that best achieve the goals of the Puget Sound Action Agenda.
 - As a pre-requisite for receiving funding, Ecology required all projects located in the Puget Sound Watershed (defined by Water Resource Inventory Areas 1 – 19) to be in compliance with the Puget Sound Partnership's Puget Sound Action Agenda.

Meeting Key Conditions of the Operating Agreement and Capitalization Grant

In 2008, Ecology and EPA amended the Operating Agreement for the Revolving Fund program. The agreement contains numerous conditions that must be met. The FFY11 Capitalization Grant and addenda contained several additional conditions that also must be met. Ecology is in compliance with all conditions of the Operating Agreement and the FFY11 Capitalization Grant. Several of the conditions are discussed elsewhere in this report; however, certain “key” conditions, including several that are required to be in the annual report, are discussed in this section.

Information on loan agreements signed and binding commitments

The FFY11 Capitalization Grant requires Ecology to provide information on all Revolving Fund agreements signed during the fiscal year. Ecology signed 28 Revolving Fund agreements in SFY12. In addition, Ecology issued binding commitment letters for four other projects, but a final agreement was not signed in SFY12. Ecology either has signed or expects to sign agreements on two of the four projects; however, Seattle Public Utilities declined the offer for the Venema Natural Drainage System project (FP12051) and is expected to decline the offer for the South Park Stormwater Facility project (FP12052). Ecology will channel available funds from these projects to other high-ranking projects in SFY13. Table 5 provides information on agreements signed/binding commitments made in SFY12.

Table 5: Revolving Fund Agreements/Binding Commitments in SFY12

Agreement/Application Number	Recipient	Project Title	Standard Loan	Int. (%)	GPRFP ² Loan	HFP ³ Loan	HCG ⁴
L1200028	Airway Heights, City of	Septic System Elimination Project	\$378,000	2.6			
L1100017 ¹	Albion, Town of	Wastewater System Collection Improvements	\$569,082	2.8			
L1200033	Bellingham, City of	Padden Creek Daylighting and Stream Restoration Project	\$1,426,000	2.6			
L1200009	Clarkston, City of	Clarkston Wastewater Treatment Improvement Project	\$660,480	2.6			
L1200030	Coulee Dam, Town of	Coulee Dam WWTF Improvements	\$4,992,000	2.6			
L1200002	Curlew Water & Sewer District	Curlew Wastewater Collection & Treatment System	\$455,205	2.6	\$20,000	\$4,904	\$2,719,891
L1200012	Hoquiam, City of	Hoquiam Wastewater Facility Plan	\$429,500	2.6			
L1200021	Lind, Town of	Town of Lind Wastewater Treatment Facility	\$74,469	2.6			\$2,600,109
L1200008, L12S0008	Longview, City of	Municipal Pervious Concrete Capacity	\$20,850	2.6	\$20,850		
L1200005	LOTT Clean Water Alliance	LOTT - Reclaimed Water Storage Facility	\$3,999,900	2.6			
L1200014	LOTT Clean Water Alliance	LOTT - Reclaimed Water Storage Facility	\$19,675,013	2.6			
L12S0025, L12S0025	Mason County	Belfair Water Reclamation Facilities—Get Connected	\$153,720	2.6		\$1,064,280	
L1200010	Northeast Tri-County Health District	Northeast Tri County Health District Sewage Disposal System	\$416,667	2.6			
L1200027	Omak, City of	Dewberry Sewer Replacement	\$1,707,000	2.6			
L1200026	Omak, City of	Sewer System Improvements	\$1,770,000	2.6			
L1200031	Pacific County	Pacific County On-Site Financial Repair Program	\$500,000	2.6			
FP12082	Port Angeles, City of	Port Angeles CSO Phase 1	\$10,000,000	2.6			
L1200020	Port Gamble S'Klallam Tribe	S'Klallam Reservation Wastewater Facility Plan	\$200,000	2.6			
L1200011	Pullman, City of	Secondary Process Improvements Project	\$7,040,357	2.6			
L1200024	Redmond, City of	Redmond Way Stormwater Treatment Facility	\$4,412,000	2.6			
L1200013, L12S0013	San Juan County Health & Community Services	On-site Repair Financial Assistance Program	\$150,000	1.3	\$150,000		
FP12057	Seattle Public Utilities	Capitol Hill Water Quality Project	\$2,811,000	2.6			
FP12051	Seattle Public Utilities	Venema Natural Drainage System	\$1,680,000	2.6	\$1,680,000		
FP12052	Seattle Public Utilities	South Park Stormwater Facility	\$5,710,584	2.6			
L1200003	Shelton, City of	Basin 3 Sewer Rehabilitation Design Project	\$439,400	2.6			
L1200032	Spokane Conservation District	Direct Seed Loan Program	\$8,333,398	2.6			
L1200015	Spokane, City of	CSO Basins 38-39-40 Control Facilities	\$4,135,238	2.6			
L1200017	Spokane, City of	River Runoff Reduction Phases 1 and 2	\$1,848,985	2.6			
L1200007	Spokane, City of	Summit Low-Impact Urban Retrofit Project	\$1,372,800	2.6			
L1200016	Thurston County Public Health	On-site Financial Assistance Program	\$250,000	2.6			
L1200018, L12S0018	Tonasket, City of	Bonaparte Creek Area Sanitary Sewer	\$50,000	2.6		\$1,206,000	
L1200019, L12S0019	Yakima, City of	Methane Utilization/ Energy Conservation	\$3,054,264	2.6	\$697,150		
Totals			\$88,715,912		\$2,568,000	\$2,275,184	\$5,320,000

Footnotes: 1 = carryover from SFY11; 2 = GPRFP = green project reserve forgivable principal; 3 = HFP = hardship forgivable principal; 4 = HCG = hardship Centennial grant

Timely and expeditious use of funds

Ecology is required to make use of federal funds received and the state match in a “timely and expeditious” manner. Table 6 shows the cumulative funds received, cumulative principal and interest collected, and the cumulative administration expenditures through SFY11 in addition to the cumulative loan obligations through SFY12. The table shows that Ecology has committed more than 109 percent of the cumulative funds available through SFY12.

Table 6: Timely and Expeditious Use of Federal Funds

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY11)	\$511,744,797	\$68,151,900	\$579,896,697
State Match (cumulative through SFY11)	\$102,348,959	-	\$102,348,959
Principal and Interest Collected (cumulative through SFY11)	\$480,996,906	-	\$480,996,906
State Treasurer's Office Interest (cumulative through SFY11/cash basis)	\$34,342,207	-	\$34,342,207
Administration 4% (cumulative through SFY11)	(\$20,469,792)	(\$2,726,076)	(\$23,195,868)
Total Funds (cumulative through SFY11)	\$1,108,963,077	\$65,425,824	\$1,174,388,901
Loan Obligations (cumulative through SFY12)	\$1,216,465,043	\$65,127,797	\$1,281,592,840
Loans as % of Funds Available			109.13%

Binding commitments

Ecology is required to make binding commitments for 120 percent of the federal grant payment within one year following receipt. Table 7 shows that Ecology easily met this requirement for SFY12.

Table 7: Binding Commitments with Respect to Federal Grant Payments in SFY12

Capitalization Grant Received During SFY12	\$25,680,000
Binding Commitments Required Within One Year of Receipt	\$30,816,000
Binding Commitments at the End of SFY12	\$88,715,912
Percent of Capitalization Grant under Binding Commitment at the End of SFY12	288%

Deposits of the state match

The State is required to deposit its match on or before the date on which each quarterly grant payment was made. In SFY12 (and all prior years), the State Treasurer deposited into the Revolving Fund account a payment that totaled at least 20 percent of the federal funds on or before the date that the federal funds were deposited.

Green Project Reserve

The FFY11 grant from EPA required Ecology to offer a minimum of 20 percent of the grant to Green Project Reserve (GPR) projects or GPR elements of projects. The FFY11 grant totaled \$25,680,000. In SFY12 Ecology made specific offers of \$5,136,000 (20 percent of the FFY11 grant) to the five highest-ranked GPR-eligible projects; the offers were for 50 percent forgivable principal loan and 50 percent standard Revolving Fund loan. Ecology also offered standard Revolving Fund loans to eight other projects with GPR-eligible costs for an additional \$18,319,455 in GPR-eligible funding offers. Table 8 shows the projects with GPR-eligible costs receiving funding offers and the projects for which specific GPR funding offers were made in SFY12.

Table 8: Green Project Reserve (GPR) Offers in SFY12

Rank	Application Number	Applicant Name	Project Title	GPR Designation	Standard Loan	50% Standard Loan, 50% Forgivable Principal Loan
3	FP12034	Curllew Water & Sewer District	Curllew Wastewater Collection & Treatment System	Energy Efficiency 3.2-1	\$40,000	\$40,000
10	FP12077	Longview, City of (Primary) / Kelso , City of (Secondary)	Municipal Pervious Concrete Capacity	Green Infrastructure 1.2-6	\$41,700	\$41,700
18	FP12051	Seattle Public Utilities	Venema Natural Drainage System	Green Infrastructure 1.2-1	\$3,360,000	\$3,360,000
27	FP12001	San Juan County Health & Community Services	On-site Repair Financial Assistance Program	Environmentally Innovative 4.2-6	\$300,000	\$300,000
29	FP12025	Yakima, City of (Wastewater Division)	Methane Utilization/ Energy Conservation Project	Energy Efficiency 3.2-1, 3.2-2	\$3,751,414	\$1,394,300
32	FP12057	Seattle Public Utilities	Capitol Hill Water Quality Project	Green Infrastructure 1.2-1	\$2,235,000	\$0
35	FP12049	Mukilteo Water & Wastewater District	Big Gulch WWTF Headworks Improvements	Energy Efficiency 3.5-3 Environmentally Innovative 4.2-5	\$312,000	\$0
37	FP12030	LOTT Clean Water Alliance	LOTT - Reclaimed Water Facility	Water Efficiency 2.2-6	\$3,999,900	\$0
40	FP12083	Thurston County Public Health and Social Services Department	On-site Financial Assistance Program	Environmentally Innovative 4.2-6	\$250,000	\$0
49	FP12036	Bellingham, City of	Padden Creek Daylighting and Stream Restoration Project	Green Infrastructure 1.2-7	\$1,926,000	\$0
50	FP12005	Northeast Tri County Health District	Northeast Tri County Health District Sewage Disposal System Repair Program	Environmentally Innovative 4.2-6	\$763,157	\$0
60	FP12041	Spokane County Conservation District	Direct Seed Loan Program	Environmentally Innovative 4.4-1b	\$8,333,398	\$0
66	FP12035	Pacific County - Department of Community Development	Pacific County On-Site Financial Repair Program	Environmentally Innovative 4.2-6	\$500,000	\$0
Totals					\$25,812,569	\$5,136,000

Additional subsidization and sustainability of funded projects

The FFY11 grant from EPA specifies that a minimum of \$2,379,660 up to a maximum of \$7,932,201 of the grant must be used to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants. Ecology meets the requirement by providing forgivable principal loans to wastewater treatment construction projects that demonstrate financial hardship and GPR-eligible projects.

In SFY12 Ecology made offers of forgivable principal loans to seven applicants for a total of \$4,843,184. On July 26, 2012, Ecology was notified by Seattle Public Utilities that they would not accept the \$1,680,000 GPR forgivable principal loan offered for the Venema Natural Drainage System project (FP12051). This resulted in a reduction in the amount of forgivable principal awarded to \$3,163,184; the revised amount still exceeded the minimum requirements.

The FFY11 EPA grant also requires that Ecology ensure “sustainability” of projects receiving additional subsidies by directing funding to projects that meet one or more of the three following criteria:

- 1) Repair, replacement, and upgrade of infrastructure in existing communities.
- 2) Investigations, studies, or plans that improve the technical, financial, and managerial capacity of the assistance recipient to operate, maintain, and replace financed infrastructure.
- 3) Preliminary planning, alternatives assessment and eligible capital projects that reflect the full life cycle costs of infrastructure assets, conservation of natural resources, and alternative approaches to integrate natural or “green” systems into the built environment.

Table 9 shows the projects offered additional subsidization through forgivable principal loans and the sustainability criterion(a) met.

Table 9: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY12

Agreement/ Application Number	Recipient	Project Title	Green Project Reserve Forgivable Principal Loan	Hardship Forgivable Principal Loan	Sustainability Criterion(a) Met
L1200002	Curlew Water & Sewer District	Curlew Wastewater Collection & Treatment System	\$20,000	\$4,904	1, 3
L1200008, L12S0008	Longview, City of	Municipal Pervious Concrete Capacity	\$20,850		1, 3
L12S0025, L12S0025	Mason County	Belfair Water Reclamation Facilities—Get Connected		\$1,064,280	1
L1200013, L12S0013	San Juan County Health & Community Services	On-site Repair Financial Assistance Program	\$150,000		1
FP12051	Seattle Public Utilities	Venema Natural Drainage System	\$1,680,000		3
L1200018, L12S0018	Tonasket, City of	Bonaparte Creek Area Sanitary Sewer		\$1,206,000	1
L1200019, L12S0019	Yakima, City of	Methane Utilization/Energy Conservation Project	\$697,150		1, 3
Totals			\$2,568,000	\$2,275,184	

Federal requirements related to employment

Facility construction projects must comply with the federal requirements of the Revolving Fund program related to employment, including Equal Employment Opportunity rules, Davis-Bacon Act wages, and Disadvantaged Business Enterprise standards. Ecology includes provisions that address these requirements in all funding agreements for facility projects.

State Environmental Review Process and Federal Cross Cutters

Ecology is required to ensure that SERP is met for all facility design or construction projects receiving funding through the Revolving Fund. In addition, Ecology is required to ensure that wastewater treatment facility construction projects meet the federal cross cutter requirements. In SFY11 Ecology’s full-time SERP Coordinator drafted the Revolving Fund State Environmental Review Process and Federal Cross Cutter Guidelines. Ecology provided the draft guidelines to EPA for review in June 2011 (SFY11) and published them in August 2012 (SFY12). The draft guidelines can be found at:

www.ecy.wa.gov/programs/wq/funding/GrantLoanMgmtDocs/Eng/DraftSERPandCrossCutGuidance.pdf.

In October 2012, EPA provided comments on the draft guidelines. Ecology is currently reviewing the comments.

Clean Water Benefits Report

Ecology is required to provide either an environmental benefits "one-pager" for every loan signed during the fiscal year or a summary report. Table 10 is a summary report derived from an output report from the Clean Water Benefits Reporting (CBR) database.

Table 10: Clean Water Benefits Report Summary for SFY12

Borrower	Loan Number	Binding Commitment Date	Loan Amount
Airway Heights, City of	L1200028	6/13/2012	\$378,000
Albion, Town of	L1100017	2/9/2012	\$511,900
Bellingham, City of	L1200033	6/28/2012	\$1,426,000
Clarkston, City of	L1200009	5/14/2012	\$660,480
Coulee City	L1200030	6/28/2012	\$4,992,000
Curlew Water and Sewer District	L1200002	4/27/2012	\$480,109
Hoquiam, City of	L1200012	4/3/2012	\$429,500
Lind, Town of	L1200021	3/8/2012	\$74,469
Longview, City of	L1200008	3/21/2012	\$41,700
LOTT Wastewater Alliance	L1200005	2/3/2012	\$3,999,900
LOTT Wastewater Alliance	L1200014	3/21/2012	\$19,675,013
Mason County	L1200025, L12S0025	6/4/2012	\$1,218,000
Northeast Tri-County Health District	L1200010	2/24/2012	\$416,667
Omak, City of	L1200026	3/26/2012	\$1,770,000
Omak, City of	L1200027	3/26/2012	\$1,707,000
Pacific County 500000	L1200031	6/21/2012	\$500,000
Port Gamble S'Klallam Tribe	L1200020	4/5/2012	\$200,000
Pullman, City of	L1200011	2/3/2012	\$12,500,000
Redmond, City of	L1200024	4/23/2012	\$4,412,000
San Juan County Health and Community Services	L1200013, L12S0013	1/30/2012	\$300,000
Shelton, City of	L1200003	2/3/2012	\$439,400
Spokane County Conservation District	L1200032	6/27/2012	\$8,333,398
Spokane, City of	L1200007	6/4/2012	\$4,135,238
Spokane, City of	L1200015	6/21/2012	\$1,848,985
Spokane, City of	L1200017	4/16/2012	\$1,372,800
Thurston County Public Health and Human Services	L1200016	3/21/2012	\$250,000
Tonasket, City of	L1200018	3/5/2012	\$1,256,000
Yakima, City of	L1200019	2/16/2012	\$3,751,414
Total			\$77,079,973

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Revolving Fund Program Changes and Development

Rule Revision Process

In SFY12 Ecology completed the process to revise the Revolving Fund and Centennial rules. The revisions established funding categories, ceiling amounts, and project eligibility, GPR and forgivable principal loans. The revisions maintained consistency between the Revolving Fund and Centennial rules.

Drawing Funds from the Capitalization Grant

In SFY12, Ecology implemented a new method for drawing funds from the capitalization grant. Previously, Ecology drew from both the capitalization grant and the state principal and interest revenue when assigning codes to new loans. For example, if there was \$30 million available from the capitalization grant and \$60 million from principal and interest repayments, Ecology would code \$30 million in loan agreements with the capitalization grant dollars and \$60 million in loan agreements with the principal and interest repayment dollars. This created a lag in spending down of the federal capitalization grants and resulted in multiple years of capitalization grant awards being open and unspent. These open and unspent capitalization grants caused concern for EPA, as it appeared to Congress that the State did not need its Revolving Fund appropriation. Ecology worked with EPA to come up with a solution, and starting in SFY12, Ecology began coding most agreements with federal capitalization dollars. Once the capitalization grants are spent out, Ecology will shift loan funding to principal and interest repayments. This will spend the existing capitalization grants within the next 3-4 years. The goal is to spend the capitalization grant in the same year it is awarded to Ecology.

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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, 2012, and is intended to supplement these financial statements. The annual financial statements and accompanying notes are found in Exhibits 1 – 5 below. 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 believes is useful to the reader.

The Water Pollution Control Revolving Fund Program

The Washington State Legislature established the Revolving Fund Account to provide financial assistance in the form of low-interest loans to local governments and tribes for high priority water quality projects. The U.S. Environmental Protection Agency (EPA) awards Water Pollution Control Revolving Fund grants to states each year. Washington's SFY12 grant was \$25,680,000. Ecology matches 20 percent of the grant award with state funds, or \$5,136,000 for 2012. These funds, combined with repayments on existing loans and investment income, totaled over \$88,000,000 for SFY12. Revolving Fund loan interest rates are between zero and 2.6 percent.

Net assets of the Revolving Fund

The Washington Revolving Fund program has no capital assets and no related debt. The total of reported net assets as of June 30, 2012 is \$739,735,080.

Income for SFY12

Net operating income of the Revolving Fund for SFY12 was \$9,236,687. 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 SFY11 was \$9,114,380.

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 match by the State. In SFY12, the amount of federal funds earned was \$32,155,161 and the amount of state matching funds received during the year was \$7,750,000.

Changes in cash position

During SFY12 the Revolving Fund cash increased by \$33,504,447, as can be seen on the Statement of Cash Flows (Exhibit 5). Total loan repayments, including principal and interest received from borrowers was \$55,043,442. Interest credited to the Revolving Fund account from the State Treasurer's Office totaled \$536,820. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$1,606,373. Cash received from EPA capitalization grant funds totaled \$31,840,269, and matching funds provided by the State totaled \$4,980,084. While cash increased from SFY11 to SFY12, Ecology would like to see cash continue to decrease as we award more loans for priority water quality projects throughout the state.

State matching funds

For SFY12, State matching funds were made available through the Public Works Assistance 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 FFY08, 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, 2012, 98 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 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.

Exhibits

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Exhibit 1: Notes to Financial Statements for SFY12

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 (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 \$605,576,697 in capitalization grants from 1989 through June 30, 2012. The State match share for that awarded amount is \$107,484,959. For the period of this report, State match is transferred to the Account from the Public Works Assistance Account (Account No. 058).

The Account is administered by Ecology through the Water Quality Program (WQP). 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'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.

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 that 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 SFY12, the federal Appropriations Act of 2011 was passed by Congress. This Act authorized some of the same requirements that were introduced in the American Recovery and Reinvestment Act of 2010. One of these requirements is forgivable principal hardship loans. The maximum forgivable principal loan amount for each hardship recipient is \$5,000,000. Ecology awarded \$2,275,184 in forgivable principal in SFY12.

Funds from EPA

In accordance with generally accepted accounting principles (GAAP), funds received from EPA and the State for the capitalization of the Account are recorded as funds from EPA and the State, 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, 2012, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was \$4.42 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. The following table shows the carrying amount and market value as of June 30, 2012.

	Carrying Amount	Market Value
Treasury/Trust Portfolio as of June 30, 2012	\$99,743,427	\$99,743,727

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 SFY12 were established at 1.3 percent for up to a five-year term and 2.6 percent for loans with more than a five-year term, but no more than 20 years. The Account also makes hardship loans with a variable interest rate, as low as zero percent, to communities that can demonstrate financial hardship on residential ratepayers in the form of sewer user fees. 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, 2012, are summarized below.

Loans by category

Loans receivable by project status at June 30, 2012, are shown in the following table.

	Loan Authorized	Remaining Commitment	Outstanding Balance
Completed Projects	\$756,393,063	\$0	\$535,800,688
Projects in Progress	\$242,550,047	\$143,504,437	\$99,045,610
Totals			\$634,846,298
Payment Requests in Progress (received as of June 30, 2012, but not yet paid)			\$962,995
Less Amount Due in One Year			(\$37,801,183)
Loans receivable, June 30, 2012 (net of current maturities)			\$598,008,110

Loans mature at various intervals. The scheduled minimum repayments on completely disbursed loans in subsequent years are shown in the following table.

Year Ending June 30:	Amount
2013	\$45,396,474
2014	\$45,341,805
2015	\$45,237,387
2016	\$44,817,501
2017	\$43,976,889
Thereafter	\$368,460,584
Total	\$593,230,640

Loans to Major Local Entities

As of June 30, 2012, the Account made loans to the major local entities shown in the table below (all figures are rounded to the nearest \$1,000). The aggregate outstanding balance for each of these entities exceeds \$5,000,000. The outstanding balances of these loans represent approximately 83 percent of the total loans receivable.

Entity	Authorized Loan Amount	Project Period Interest	Loan Amount at Completion	Outstanding Balance
Alderwood Water & Wastewater District	\$9,016,000	\$293,000	\$9,309,000	\$9,071,000
Airway Heights, City of	\$10,935,000	\$477,000	\$11,366,000	\$11,250,000
Arlington, City of	\$14,558,000	\$717,000	\$15,275,000	\$15,275,000
Bremerton, City of	\$9,921,000	\$155,000	\$10,076,000	\$7,103,000
Camas, City of	\$14,364,000	\$797,000	\$12,938,000	\$7,991,000
Centralia, City of	\$34,726,000	\$12,530,000	\$47,256,000	\$21,432,000
Chehalis, City of	\$39,322,000	\$67,000	\$37,771,000	\$29,166,000
Cheney, City of	\$12,929,000	\$1,000	\$12,930,000	\$10,603,000
Kalama, City of	\$7,031,000	\$54,000	\$7,085,000	\$5,121,000
Mt. Vernon, City of	\$16,264,000	\$700,000	\$16,964,000	\$15,171,000
Pasco, City of	\$22,726,000	\$2,284,000	\$25,011,000	\$11,278,000
Sequim, City of	\$10,864,000	\$136,000	\$11,000,000	\$6,960,000
Stanwood, City of	\$8,854,000	\$0	\$8,854,000	\$5,523,000
Sunnyside, City of	\$12,377,000	\$1,160,000	\$13,536,000	\$9,520,000
Tacoma, City of	\$73,701,000	\$1,952,000	\$75,652,000	\$64,504,000
Toppenish, City of	\$8,715,000	\$0	\$8,715,000	\$8,268,000
Walla Walla, City of	\$13,780,000	\$831,000	\$14,610,000	\$7,065,000
Wenatchee, City of	\$7,195,000	\$197,000	\$7,392,000	\$5,711,000
Winlock, City of	\$6,510,000	\$0	\$6,510,000	\$5,508,000
King County Department of Natural Resources	\$169,131,000	\$11,340,000	\$158,662,000	\$75,183,000
King County Wastewater Treatment Division	\$26,769,000	\$103,000	\$26,872,000	\$18,601,000
King County	\$21,046,000	\$193,000	\$21,239,000	\$12,052,000
Kitsap County Public Works	\$10,173,000	\$178,000	\$10,351,000	\$7,186,000
Lake Stevens Sewer District	\$45,202,000	\$3,270,000	\$48,473,000	\$48,391,000
LOTT Wastewater Alliance	\$104,265,000	\$6,022,000	\$80,599,000	\$32,511,000
Mason County	\$20,628,000	\$365,000	\$20,754,000	\$11,364,000
Seattle Public Utilities	\$9,958,000	\$308,000	\$10,266,000	\$9,445,000
Spokane County	\$19,140,000	\$94,000	\$19,234,000	\$13,200,000
Spokane County Conservation District	\$19,131,000	\$377,000	\$14,553,000	\$10,221,000
Totals	\$779,231,000	\$44,601,000	\$763,253,000	\$494,674,000

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 from those estimated.

4. Funds from EPA and the State

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 EPA and the State. Since 1989, EPA has awarded a total of \$605,577,000 in grants to the State, of which \$532,349,000 has been drawn for loans and administrative expenses. The State has provided a total of \$93,370,000 in matching funds for that total drawn amount. The following table summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans (dollar amounts are rounded to the nearest \$1,000).

Federal Fiscal Year	Grant Amount	Draws Through SFY11	2012 Draws	Draws Through SFY12	Available SFY12
1989-1991	\$70,278,000	\$70,278,000	\$0	\$70,278,000	\$0
1992	\$33,789,000	\$33,789,000	\$0	\$33,789,000	\$0
1993	\$33,425,000	\$33,425,000	\$0	\$33,425,000	\$0
1994	\$20,740,000	\$20,740,000	\$0	\$20,740,000	\$0
1995	\$21,420,000	\$21,420,000	\$0	\$21,420,000	\$0
1996	\$22,509,000	\$22,509,000	\$0	\$22,509,000	\$0
1997	\$23,415,000	\$23,415,000	\$0	\$23,415,000	\$0
1998	\$23,417,000	\$23,417,000	\$0	\$23,417,000	\$0
1999	\$46,759,000	\$46,759,000	\$0	\$46,759,000	\$0
2001	\$23,132,000	\$23,132,000	\$0	\$23,132,000	\$0
2002	\$23,184,000	\$23,184,000	\$0	\$23,184,000	\$0
2003	\$23,033,000	\$23,033,000	\$0	\$23,033,000	\$0
2004	\$23,047,000	\$23,047,000	\$0	\$23,047,000	\$0
2005	\$18,739,000	\$18,739,000	\$0	\$18,739,000	\$0
2006	\$26,347,000	\$26,347,000	\$0	\$26,347,000	\$0
2007	\$19,410,000	\$9,465,000	\$9,945,000	\$19,410,000	\$0
2008	\$11,834,000	\$394,000	\$11,440,000	\$11,834,000	\$0
2008 (ARRA)	\$68,152,000	\$56,401,000	\$9,114,000	\$65,515,000	\$2,637,000
2009	\$11,834,000	\$394,000	\$633,000	\$1,027,000	\$10,807,000
2010	\$35,433,000	\$303,000	\$878,000	\$1,181,000	\$34,252,000
2011	\$25,680,000	\$0	\$148,000	\$148,000	\$25,532,000
Totals	\$605,577,000	\$500,191,000	\$32,158,000	\$532,349,000	\$73,228,000

State matching contributions through SFY12 are shown in the following table (dollar amounts are rounded to the nearest \$1,000).

	SFY11	SFY12 Contribution	SFY12
State Matching Contributions	\$88,760,000	\$4,610,000	\$93,370,000

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 that 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 that requires adjustment to, or disclosure in, the financial statements.

Exhibit 2: Disbursements and Accruals

	SFY12	Federal	State
2012 Disbursements for Loans	\$26,420,018	\$22,015,801	\$4,404,217
2012 Disbursements for Administration	\$1,231,008	\$1,025,799	\$205,209
Total Disbursements	\$27,651,026	\$23,041,600	\$4,609,426
2012 Cash Draw From Capitalization Grants	(\$23,041,600)		
2012 State Match (20% of Cash Draws)	\$4,609,426		
2012 100% State Funds Disbursements	\$22,086,716		
Total Disbursements Loan, Administration, Federal, and State	\$49,737,742		
Percentage of Cash Draw From Capitalization Grants to Total Disbursements	83.33%		
Administration Calculation	2%		

The accompanying notes are an integral part of the financial statements.

Exhibit 3: Net Assets and Balance Sheet

	2012	2011
Assets		
Current Assets		
Cash and Cash Equivalents	\$99,743,427	\$66,238,980
Receivables		
Due From Federal Government	\$99,539	\$2,097,062
Interest on Revolving Fund Loans	\$2,012,951	\$1,954,626
Other Receivables	\$0	\$1,064
Due From Other Funds	\$3,193,346	\$433,862
Total Receivables	\$5,305,837	\$4,486,614
Collateral Held/Security Lending Agreements	\$0	\$0
Current Maturities of Revolving Fund Loans	\$37,801,183	\$34,879,814
Total Current Assets	\$142,850,447	\$105,605,407
Loans Receivable, Net of Current Maturities	\$598,008,111	\$602,732,440
Total Assets	\$740,858,558	\$708,337,847
Liabilities and Fund Equities		
Current Liabilities		
Due to Federal Government	\$0	\$2,312,415
Accounts Payable and Accrued Expenses	\$81,407	\$98,364
Due to Other Funds	\$79,074	\$65,714
Obligation Under Security Lending Agreement	\$0	\$0
Construction Costs Payable	\$962,996	\$4,927,071
Total Current Liabilities	\$1,123,477	\$7,403,565
Net Assets		
Restricted	\$739,735,081	\$700,934,282
Total Liabilities and Net Assets	\$740,858,558	\$708,337,847

The accompanying notes are an integral part of the financial statements.

Exhibit 4: Statement of Revenue, Expenditure Equity

	2012	2011
Operating Revenues		
Interest Income on Revolving Fund Loans	\$10,834,217	\$10,577,253
Operating Expenses		
Salaries and Benefits	\$1,096,956	\$1,094,312
Supplies	\$27,852	\$22,498
Travel	\$14,571	\$18,132
Indirect Costs	\$411,766	\$327,929
Contracts	\$45,985	\$0
Equipment	\$399	\$0
Total Operating Expenses	\$1,597,529	\$1,462,872
Operating Income (Loss)	\$9,236,687	\$9,114,381
Non-operating Revenue (Expenses)		
Transfer In	\$0	\$0
Interest on Investments	\$518,470	\$403,453
Funds Received From EPA	\$32,155,161	\$40,713,787
Funds Received From the State	\$7,750,000	\$1,381,837
Immaterial Adjustments to Prior Period	\$0	\$0
Loan Principal Forgiven	(\$10,859,519)	(\$23,753,979)
Total Non-operating Revenue	\$29,564,111	\$18,745,099
Change in Net Assets	\$38,800,798	\$27,859,480
Net assets, Beginning of Year	\$700,934,282	\$673,074,803
Net assets, End of Year	\$739,735,081	\$700,934,282

The accompanying notes are an integral part of the financial statements.

Exhibit 5: Comparative Statement of Cash Flows*

	2012	2011
Cash Flows from Operating Activities		
Receipts From Customers	\$8,883,679	\$9,352,470
Payments to Employees and Suppliers	(\$1,606,373)	(\$1,198,874)
Forgivable Principal Loans Disbursements	(\$10,859,519)	(\$23,753,979)
Loans Disbursements	(\$46,430,275)	(\$38,385,107)
Repayments on Loans	\$46,159,763	\$34,199,346
Net Cash Provided (used) by Operating Activities	(\$3,852,726)	(\$19,786,144)
Cash Flows from Non-capital Financing Activities		
Funds Received From EPA	\$31,840,269	\$40,824,325
Transfers From Other State Funds	\$4,980,084	\$972,313
Transfer Out From IT Project	\$0	\$0
Net Cash Provided (used) by Non-capital Financing Activities	\$36,820,353	\$41,796,637
Cash Flows from Investing Activities		
Receipts From Interest on Investments	\$536,820	\$426,126
Net Cash Provided (used) by Investing Activities	\$536,820	\$426,125
Net Cash Provided (used)	\$33,504,447	\$22,436,619
Cash and Cash Equivalents, Beginning of Year	\$66,238,980	\$43,802,360
Cash and Cash Equivalents, End of Year	\$99,743,427	\$66,238,979
Excess of Revenue Over Expenses (net income)	\$9,236,687	\$9,114,381
(Increase) Decrease in Interest on Revolving Fund Loans	\$235,048	(\$341,201)
(Increase) Decrease in Current Maturities of Revolving Fund Loans	(\$2,185,586)	(\$883,582)
(Increase) Decrease in Loans Receivable (net)	\$46,159,763	\$34,199,346
(Decrease) Increase in Payables	(\$46,439,119)	(\$38,121,110)
(Decrease) Increase in Forgivable Principal Loan Payable	(\$10,859,519)	(\$23,753,979)
Net Cash Provided (used) by Operating Activities	(\$3,852,726)	(\$19,786,144)

*: See Exhibit 1, Notes to Financial Statements for SFY12, for an explanation of the changes made on this exhibit.

The accompanying notes are an integral part of the financial statements.