



Annual Report

Washington State Water Pollution Control Revolving Fund

*Washington State Water Pollution Control
Revolving Account*

For State Fiscal Year 2013
July 1, 2012 - June 30, 2013

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Annual Report
Washington State Water Pollution
Control Revolving Fund

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Water Quality Program – Financial Management Section
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Table of Contents

List of Tables	iv
Introduction.....	1
Sources of funds.....	1
Uses of funds.....	1
State fiscal year and federal fiscal year.....	2
What’s in this report.....	2
Ecology and the Water Quality Program’s Goals and Objectives and Progress Made	3
Meeting Key Conditions of the Operating Agreement and Capitalization Grant.....	15
Information on loan agreements signed and binding commitments	15
Timely and expeditious use of funds	17
Binding commitments.....	17
Deposits of the state match	17
Green Project Reserve.....	18
Additional subsidization and sustainability of funded projects	18
Federal requirements related to employment.....	19
State Environmental Review Process and federal cross cutters.....	19
Clean Water Benefits Report	20
Revolving Fund Program changes and development.....	20
Management Discussion and Analysis	23
The Water Pollution Control Revolving Fund Program.....	23
Net assets of the SRF	23
Income for fiscal year 2013	23
Changes in cash position.....	24
State matching funds.....	24
Recovery Act Clean Water State Revolving Fund	24
Conclusion	24
Exhibits	
EXHIBIT 1: Notes to Financial Statements for Fy13.....	25
EXHIBIT 2: Disbursements and Accruals.....	34
EXHIBIT 3: Comparative Statement of Net Position.....	35
EXHIBIT 4: Comparative Statement of Revenues,.....	36
EXHIBIT 5: Comparative Statement of Cash Flows.....	37

List of Tables

Table 1: Application Point Allocation in SFY13.....	5
Table 2: Hardship Construction Loan Interest Rate Continuum for SFY13	6
Table 3: Principal Forgiveness Loan Continuum	6
Table 4: Revolving Fund Agreements/Binding Commitments in SFY13	16
Table 5: Timely and Expeditious Use of Federal Funds.....	17
Table 6: Binding Commitments with Respect to Federal Grant Payments in SFY13.....	17
Table 7: Green Project Reserve (GPR) Offers in SFY13	18
Table 8: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY13	19

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 goals of the WQP and the Revolving Fund are 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). Ecology makes every attempt to integrate and streamline the three funding programs. This approach provides significant program savings and efficiencies for Ecology, its clients, and its 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 2012 (FFY12) capitalization grant is administered in the state fiscal year 2013 (SFY13) funding cycle.

What's in this report

This report discusses how Ecology administered the Revolving Fund FFY12 capitalization grant, state match, and principal and interest repayments during SFY13. SFY13 covers part of FFY12 and FFY13. 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 FFY12 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY13.
- Presents a Management Discussion and Analysis section providing Revolving Fund financial statements.
- Includes several exhibits containing the unaudited financial statements of the Revolving Fund for SFY13.

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-application evaluation meeting to further disseminate information before tabulating the final scores.
 - Ecology regional project managers work closely with the headquarters Financial Management Section and coordinate with staff specializing in total maximum daily loads (TMDL) and permitting during the application 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 Intended 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; Washington State Department of Health (DOH); and Washington State Department of Commerce, Public Works Board.

- 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 and 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 address key EPA priorities. Part of that communication includes soliciting comments from EPA on the Draft IUP.
- 5) Continue to develop and refine water quality performance measures.
 - Ecology staff have been working on the development of quantitative and qualitative project performance measures that can be readily tracked and reported. Ecology plans to implement performance measure tracking through its new EAGL (Ecology Administration of Grants and Loans) database system for administering grants and loans in the SFY2015 funding cycle.

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 SFY13 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.
 - In SFY13, Ecology's Revolving Fund loans, Centennial grants, and Section 319 grants provided a total of \$5,381,327 to projects 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 SFY13 Ecology worked with stakeholders and the Legislature to get HB1141 signed into law, amending RCW 90.50A establishing the water pollution control revolving administration account.
 - Ecology has begun the rule change process to allow for a 1 percent charge on loans going into repayment. These funds will go into the water pollution control revolving administration account and be used to pay for administrative expenses. Over a four year period, this will eliminate the reliance on the 4 percent allowance from the annual Capitalization Grant and create a fully sustainable Revolving Fund.
 - Ecology regularly requests comments and feedback from stakeholders and clients on potential changes or 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.
 - In SFY13, Ecology organized and attended meetings on December 3, 2012, and May 15, 2013, 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.
 - Ecology held two meetings October 15, 2012, and June 10, 2013, 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. One of 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 SFY13

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	Coordination with State and Federal Priorities	Up to 100
5	Project Team	Up to 50
6	Project Development, Local Support, and Past Performance	Up to 75
7	Readiness to Proceed	Up to 75
8	Hardship (for wastewater construction projects only)	50
Total Points		1,000

Goal 4

Provide the best possible funding packages to financially distressed communities for wastewater facility 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. Tables 2 and 3 show Ecology’s hardship continuum for Revolving Fund loans and forgivable principal. Table 8 shows the agreements signed in SFY13 involving financial hardship funding.

Table 2: Hardship Construction Loan Interest Rate Continuum for SFY13

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%

Table 3: Principal Forgiveness Loan Continuum

Sewer User 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)
Principal Forgiveness Loan Hardship-Funding Continuum	Not eligible (ceiling amounts apply)	50% principal forgiveness loan (ceiling amounts apply)	75% principal forgiveness loan (ceiling amounts apply)	100% (ceiling amounts apply)

- 2) 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 funding recommendations 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.

3) In addition to low interest rates, provide additional subsidies through Centennial grants and the Revolving Fund in the form of forgivable principal loans as allowed by the federal Appropriations Act of 2013.

- See Table 8 for a list of recipients who received these subsidies.

Goal 5

Provide technical assistance to local governments and tribes.

Objectives and progress

1) Continue to be responsive to questions and information requests from local governments and tribes.

- Ecology staff strive to respond to questions and request for information within one working day.

2) 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.

3) 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.

- 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.

4) Work closely with appropriate federal and state agencies to ensure effective coordination associated with major federal and state environmental prerequisites.

- Ecology coordinates closely with other federal agencies and other state agencies to ensure we are meeting the federal and state environmental prerequisites. 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.

5) 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 SFY13 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.

- Ecology conducts a monthly financial managers meeting to ensure that information is shared internally.
- 6) 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 stakeholders, 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 and throughout the year upon request. The Tech Team meetings provide multi-agency (federal and state) 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 SFY13 included, but were not limited to, the following:
 - Developed a Marketing Plan, outlining potential applicants and their attitudes, barriers, and beliefs about applying for SRF loan funds and identified groups to increase outreach efforts to increase demand for funds.
 - 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.
 - Assisted with planning and participated in the annual IACC conference. Ecology is an IACC member, and an Ecology staff member is the current IACC Chair. This organization works to coordinate the infrastructure funding programs to facilitate sharing information and problem solving. The IACC hosted its annual conference (October 1-3, 2012) where several staff presented information on the financial assistance programs and participated in technical assistance (Tech Team) meetings to assist local communities in developing plans for specific infrastructure projects.
 - 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 and combined financial assistance 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.
 - Merged/leveraged 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. Ecology bases the interest rates 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 such as those published on www.economagic.com/em-cgi/data.exe/fedbog/slbond. The interest rates for standard Revolving Fund loans in SFY13 were:
 - 1.4 percent for a five-year loan (30 percent of tax-exempt municipal bonds).
 - 2.7 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.

- As of August 2013, the tax-exempt municipal bond interest rate was 4.82 percent and the weighted average of all Revolving Fund loans awarded to-date was 2.62 percent (54 percent 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 a financial capability assessment on each Revolving Fund loan recipient before finalizing the loan agreement. 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 agreement. 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) Refine and standardize, where possible, the current financial capability assessment method, in coordination with other federal and state agencies.
 - Ecology made revisions to its financial capability assessment methods within SFY13; Ecology is applying these revisions to the SFY14 applicants.
 - 6) Coordinate with Ecology's fiscal office on the overall financial management issues and 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.
 - Ecology Financial Managers and Project Managers continue to provide appropriate oversight of projects to ensure fiscal accountability.

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:
 - Tacoma, WA (August 13, 2013).
 - Moses Lake, WA (August 7, 2013).
 - 3) Maintain the grant and loan funding website.
 - Ecology regularly updated the grant and loan funding website (www.ecy.wa.gov/programs/wq/funding/funding.html) to keep the public and stakeholders abreast of funding and training opportunities and to 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. Ecology made the Draft IUP available to the public. Ecology held a public meeting February 27, 2012, in Tacoma to discuss the Draft IUP and sought additional public comment during a 30-day public comment period.

Goal 8

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

Objectives and progress

- 1) Provide additional Revolving Fund subsidies for water quality improvement efforts that qualify under the GPR category. Provide at least 10 percent of the Revolving Fund capitalization grant from the EPA to GPR projects as required by the federal Appropriations Act of 2012.
 - Table 6 shows the projects with GPR-eligible costs receiving funding offers and the projects to which Ecology made specific GPR funding offers in SFY13.
- 2) Disseminate and share GPR guidance information received from EPA with clients and stakeholders as quickly as possible to help facilitate quality GPR projects.
 - Ecology provided GPR guidance information during the applicant workshops, within the SFY13 application as well as posting guidance on the Water Quality funding website.
- 3) Participate in EPA-sponsored GPR Webcasts and other applicable GPR meetings.
 - EPA did not provide any sponsored GPR training during SFY13.

Goal 9

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

Objectives and progress

- 1) 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 repair and replacement programs.
 - In SFY13 Ecology signed one Revolving Fund loan agreement for an on-site sewage system (OSS) project. The one loan (L1300010) was made to Thurston County for \$150,000 for their ongoing On-Site Financial Assistance Program.
 - In addition, Ecology signed one Centennial Program grant agreement with Pacific County that will provide it with the resources it needs to develop its loan program. Ecology awarded a Revolving Fund Loan to Pacific County in SFY12; the County needed the additional grant funds to support the staff time needed to build its loan program.
- 2) Continue to offer reduced interest rates to local governments that target loans to financially-distressed homeowners and business owners as defined in program guidelines.
 - For loans like the Revolving Fund loan Ecology made to Thurston County (where the recipient will make loans to individual OSS owners for repair or replacement), Ecology will establish a final interest rate when the project is completed. Ecology will reduce the final interest rate if Thurston County provides loans to lower income households.
- 3) Review and update if necessary, program guidance and administrative rules to reflect emerging needs
 - Ecology has not undertaken any changes to its program guidance or administrative rules in FY13. However, Ecology staff is participating in a project headed by the Washington Department of Health (DOH) to conduct an OSS loan program needs assessment and explore the options for funding and administering a regional on-site sewage loan program.
- 4) Work closely with local governments who run successful local loan programs to learn about what does and does not work.
 - Ecology held a half-day OSS workshop in late February 2013 attended by representatives from all but one of the Ecology-funded programs. Staff from DOH, other local health jurisdictions, and Craft3 (a lender for the Hood Canal region) also attended. The workshop gave grant/loan recipients a chance to share information both with Ecology staff and each other on loan program processes and rules.
 - In addition, Ecology staff talks or meets with local loan program staff regularly to hear concerns and address day-to-day issues.

Goal 10

Ensure the availability of Centennial grant and Revolving Fund loan funding for 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. Up to two thirds of the available Centennial grant dollars may be set aside to fund nonpoint pollution projects if demand for hardship facilities projects is low.
 - In SFY13 Ecology set aside 33 percent of the available Centennial grant funds for nonpoint source pollution control projects. There was \$10.4M in requests and Ecology funded \$2.5M.
- 2) Set aside 20 percent of the available Revolving Fund to fund nonpoint pollution projects.
 - In SFY13 Ecology set aside 20 percent of the available Revolving Fund or (\$15M) for nonpoint source pollution control projects, however only \$1.5M was requested in this category and \$1.4M was awarded.
- 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.

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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 FFY12 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 FFY12 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 FFY12 Capitalization Grant requires Ecology to provide information on all Revolving Fund agreements signed during the fiscal year. Ecology signed 27 Revolving Fund agreements totaling \$52,038,034 in SFY13. Table 4 provides information on agreements signed/binding commitments made in SFY13.

Table 4: Revolving Fund Agreements/Binding Commitments in SFY13

Application Number	Agreement Number	Recipient	Project Title	Standard Loan	Int. (%)	Forgivable Principal Loan	Binding Commitment Date
FP13067	L1200035	Liberty Lake	Engineering Report	\$ 100,000	1.4	\$	1/31/2013
FP13073	L1300001	Ilwaco, City of	City of Ilwaco Wastewater Plant Debt Refinance	3,251,094	2.7		10/11/2012
FP13007	L1300002/L13S0002	Tekoa, City of	Tekoa Infiltration and Inflow Reduction Design Project	54,200	1.3	54,200	11/29/2012
FP13080	L1300003	Ilwaco, City of	First Avenue North Sewer Improvements	960,242	2.7		1/29/2013
FP13044	L1300004	King County	South Magnolia CSO Control (Final Design)	5,193,826	2.7		1/29/2013
FP13040	L1300005	King County	Fremont Siphon Replacement (Facilities Plan)	2,213,531	2.7		1/29/2013
FP13081	L1300006/L13S0006	Ilwaco, City of	Sahalee Sewer Improvements	22,500	1.4	22,500	1/29/2013
FP13051	L1300007/L13S0007	Deer Park, City of	Effluent Reuse Feasibility Study/Sewer Plan Update	30,000	2.7	30,000	12/21/2012
FP13049	L1300008/L13S0008	Deer Park, City of	Wastewater Storage Lagoon #1 and #2 Upgrade	300,675	1.4	300,675	12/21/2012
FP13023	L1300010	Thurston County	On-site Financial Assistance Program	150,000	2.7		1/29/2013
FP13043	L1300011	King County	North Beach CSO Control (Final Design)	2,947,050	2.7		2/1/2013
FP13042	L1300012	King County	Murray CSO Control (Final Design)	5,001,000	2.7		2/1/2013
FP13041	L1300013	King County	Barton CSO Beach Project (Final Design)	4,644,790	2.7		1/31/2013
FP13059	L1300014	Spokane, City of	CSO Basin 41 Control Facility	4,968,000	2.7		3/28/2013
FP13060	L1300015	Spokane, City of	Hazel's Creek Downtown Conveyance	1,428,960	2.7		3/12/2013
FP13016	L1300017/L13S0017	Bellingham, City of	Squalicum Creek WQ and Biotic Integrity Improvements	1,044,637	2.7	222,637	2/27/2013
FP13006	L1300018	Yakima, City of	Methane Utilization/Energy Conservation	5,000,000	2.7		5/2/2013
FP13087	L1300019/L13S0019	Riverside, Town of	Riverside Wastewater Facility Plan and Environmental Report	25,000	1.4	25,000	2/15/13
FP13058	L1300020	Spokane, City of	CSO Basin 33-2 Control Facility	4,521,400	2.7		4/24/2013
FP13028	L1300021	Rainier, City of	City of Rainier Wastewater Facility Plan	70,000	2.7		3/28/2013
FP13070	L1300022	Goldendale, City of	Sewer Collection System Improvements	2,353,000	2.7		4/19/2013
FP13024	L1300023/L13S0023	Skokomish Indian Tribe	Core Reservation WRF& Collection (Pre-Construction)	350,000	2.7	350,000	3/18/2013
FP13012	L1300024	Mabton, City of	Wastewater Treatment Facility Improvements	2,123,000	2.1		5/2/2013
FP13025	L1300025	Skokomish Indian Tribe	Potlatch Reclam. Facility Collection System Construction	794,282	2.4		3/18/2013
FP13029	L1300027/L13S0027	Vader, City of	Wastewater Treatment Facility Upgrade Design	450,000	2.7	450,000	6/28/2013
FP13020	L1300029	Granger, Town of	Granger Wastewater System Improvements	1,860,835	2.3		6/28/2013
FP13052	L1300030	Kennewick, City of	Kennewick Sustainability-WWTP Improvements	725,000	1.4		6/28/2013
Total	27 Agreements			\$52,583,022	2.62	\$1,455,012	

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. EPA's Memorandum #SRF 99-05 requires the CWSRF program to execute binding commitments at least equal to the amount of funds available in the program, within one year of that fund availability." It explains what is meant by timely and expeditious. Table 5 shows the cumulative funds received, cumulative principal and interest collected, and the cumulative administration expenditures through SFY12 in addition to the cumulative loan obligations through SFY13. The table shows that Ecology has committed more than 103.18percent of the cumulative funds available through SFY13.

Table 5: Timely and Expeditious Use of Federal Funds

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY12)	\$537,424,797	\$68,151,900	\$605,576,697
State Match (cumulative through SFY12)	107,484,959	-	107,484,959
Principal and Interest Collected (cumulative through SFY12)		-	535,307,522
State Treasurer's Office Interest (cumulative through SFY12/cash basis)		-	34,879,027*
Administration 4% (cumulative through SFY12)	(21,496,992)	(2,726,076)	(24,223,068)
Total Funds (cumulative through SFY12)	623,412,762	65,425,824	1,259,025,137
Loan Obligations (cumulative through SFY13)	\$1,233,668,029	\$65,449,649	\$1,299,117,678
Loans as % of Funds Available			103.18%

* - Interest for Base + Title II and ARRA are combined in the Total Column

Binding commitments

Ecology is required to make binding commitments for 120 percent of the federal grant payment within one year following receipt. Table 6 shows that Ecology easily met this requirement for SFY13.

Table 6: Binding Commitments with Respect to Federal Grant Payments in SFY13

Capitalization Grant Received During SFY13	\$24,578,000
Binding Commitments Required Within One Year of Receipt	\$29,493,600
Binding Commitments at the End of SFY13	\$52,037,534
Percent of Capitalization Grant under Binding Commitment at the End of SFY12	211%

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 SFY13 (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. Transfers from other State Funds occurred on June 29, 2012 – Document No. 70109901 \$3,155,375.62 (FM99 – considered cash in FY13) and July 31, 2012 – Document No. 70101326 \$7,750,000.00 (FM13).

Green Project Reserve

The FFY12 grant from EPA required Ecology to offer a minimum of 10 percent of the grant to Green Project Reserve (GPR) projects or GPR elements of projects. The FFY12 grant totaled \$24.578M. In SFY13 Ecology made specific offers of \$6M to the five highest-ranked GPR-eligible projects. Three projects declined funding (FP13066-City of Rock Island, FP13057-City of Spokane, FP13037-City of Tumwater). Upon further review, Ecology determined that 70 percent of FP13052-City of Kennewick's project qualified for GPR and added that project to the list. Our total GPR is \$1.9M or 8 percent of the grant amount and under the 10 percent goal. Table 7 shows the projects with GPR-eligible costs receiving funding offers and the projects to which Ecology made specific GPR funding offers in SFY13. For SFY14, Ecology increased outreach and marketing of GPR and identified over \$9.2M worth of GPR projects.

Table 7: Green Project Reserve (GPR) Offers in SFY13

Rank	Application Number	Applicant Name	Project Title	GPR Designation	Standard Loan	Forgivable Principal Loan
7	FP13016	Bellingham, City of	Squalicum Creek Water Quality and Biotic Integrity Improvements	Energy Efficiency 3.2-2	\$1,044,637	\$222,637
57	FP13023	Thurston County Public Health	On-site Financial Assistance Program	Environment ally Innovative 4.2-6	150,000	
73	FP13052	Kennewick, City of	Kennewick Sustainability-WWTP Improvements	Energy Efficiency 3.2-2	507,500	
Totals					\$1,702,137	\$222,637

Additional subsidization and sustainability of funded projects

The FFY12 grant from EPA specifies that Ecology must use a minimum of \$1,365,956 (5.55 percent) up to a maximum of \$2,048,934 (8.33 percent) of the grant 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 SFY13 Ecology made offers of forgivable principal loans to ten applicants for a total of \$2,048,934. Mason County subsequently declined the \$432,922 Hardship forgivable principal loan offered for the Belfair WWTP phase 2 project (FP1026) and the City of Rock Island declined the \$170,250 GPR forgivable principal loan for the Rock Island Wastewater Treatment Plant and Side Sewers project (FP13066). These actions reduced the amount of forgivable principal awarded to \$1,455,012. This amount meets the minimum requirement. Table 8 summarizes the projects that received forgivable principal loans and centennial grants as subsidies for their projects.

Table 8: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY13

Applicati on Number	Agreement Number	Recipient	Project Title	Forgivable Loans	Centennial Grant	Sustainability Criterion Met
FP13007	L1300002/ L13S0002	Tekoa, City of	Tekoa Infiltration and Inflow Reduction Design Project	\$ 54,200	\$	1
FP13081	L1300006/ L13S0006	Ilwaco, City of	Sahalee Sewer Improvements	22,500		1
FP13051	L1300007/ L13S0007	Deer Park, City of	Effluent Reuse Feasibility Study/Sewer Plan Update	30,000		2
FP13049	L1300008/ L13S0008	Deer Park, City of	Wastewater Storage Lagoon #1 and #2 Upgrade	300,675		1
FP13087	L1300019/ L13S0019	Riverside, Town of	Riverside Wastewater Facility Plan and Environmental Report	25,000		2
FP13024	L1300023/ L13S0023	Skokomish Indian Tribe	Core Reservation WRF& Collection (Pre-Construction)	350,000		2
FP13012	L1300024	Mabton, City of	Wastewater Treatment Facility Improvements		2,277,000	1
FP13025	L1300025	Skokomish Indian Tribe	Potlatch Reclam. Facility Collection System Construction		408,253	2
FP13029	L1300027/ L13S0027	Vader, City of	Wastewater Treatment Facility Upgrade Design	450,000		1
FP13020	L1300029	Granger, Town of	Granger Wastewater System Improvements		1,246,140	1
FP13016	L1300017/ L13S0017	Bellingham, City of	Squalicum Creek Water Quality and Biotic Integrity Improvements	222,637		3
Total	10			\$1,455,012	\$3,931,393	

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 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 4 is a summary report derived from an output report from the Clean Water Benefits Reporting (CBR) database.

Revolving Fund Program changes and development

Establishment of an SRF administrative charge

On May 1, 2013, the Governor signed SHB 1141 which amended RCW 90.50A.010 establishing the water pollution control revolving administrative account. Ecology is working to adopt amendments to Chapter 173-98 Washington Administrative Code (WAC), *Uses and Limitations of the Water Pollution Control Revolving Fund* (Revolving Fund) allowing for a 1 percent charge on loans to be used for administrative costs related to SRF.

Drawing funds from the Capitalization Grant

Ecology implemented a new method for drawing funds from the capitalization grant in SFY12. 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. In SFY13, Ecology continued to draw the majority of funds from the capitalization grants. Ecology was able to spend down the 2009 capitalization grant available balance of \$10,807,000 and the 2010 grant in the amount of \$34,252,000. This leaves only the 2011 and 2012 grants open as of June 30, 2013. EPA acknowledged that Ecology has made significant progress towards drawing all capitalization grants prior to principal and interest revenue during the biennium. 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.

Development of a web based grant and loan management system

Ecology awarded a contract to Agate Software, Inc., a Michigan based company to purchase their “off the shelf” software and modify it for Ecology’s use as our new web-based grant and loan management system. The system known as EAGL, Ecology Administration of Grants and Loans, will allow for on-line applications, agreement development, payment request processing, progress reporting, deliverable tracking, and closeout. The system will not replace our current accounting systems, CGP (Contracts and Grants Payable) and ELTS (Ecology Loan Tracking System), but will work with those systems, ensuring consistent data.

Acceleration

The SRF fund has grown over the years to a healthy fund balance averaging in excess of \$100 million, as quarterly revenue into the account from repayments and federal grants have outpaced quarterly expenditures. Historically, Ecology has based SRF loan offers on the available cash in the account. In consultation with EPA, Ecology has developed an SRF cash flow modeling plan that projects the expected availability of funds from principal and interest income compared to loan disbursements on projects over time. This approach, referred to as loan acceleration, allows Ecology to award funds sooner, counting on future loan repayments to preserve a sufficient fund balance.

Ecology is coordinating closely with EPA Region 10 SRF managers, who have stated that they fully support Ecology’s move to a cash flow model. Ecology’s use of cash flow acceleration has been acknowledged by EPA in SRF program documents, including the Intended Use Plan approved by EPA. Many states actively use this model including Oregon and California, which are examples EPA cites as states that have successfully moved from a cash in hand approach to a cash flow modeling approach. In 2006, EPA published an overview titled “Accelerated Loan Commitment in the SRF Program” (EPA 816N-00-003E). Ecology used this EPA publication as guidance for developing a cash flow approach.

Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) introduces the annual financial statements of the Washington State Water Pollution Control Revolving Fund (SRF) for the year ended June 30, 2013, and supplements these financial statements. The Washington State Department of Ecology (Ecology) SRF 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 SRF Account was established to provide financial assistance in the form of low-interest loans to local governments and tribes for high priority water quality projects. Ecology receives an annual grant from the U.S. Environmental Protection Agency (EPA). The State Fiscal Year 2013 grant award was \$24,578,000. Ecology matches 20 percent of the grant award with state funds, or \$4,915,600 for 2013. The funding levels for the SRF Program for each fiscal year are based on federal appropriations, state legislative appropriations, repayments from past loans, interest on investments and de-obligated funds. The funding made available for projects in State fiscal year 2013 was \$75,387,311 as published in Ecology's State fiscal year 2013 Intended Use Plan. SRF loan interest rates are between zero and 2.7 percent.

Net assets of the SRF

The Washington State SRF program has no capital assets and no related debt. The total amount of reported net assets as of June 30, 2013, is \$802,478,498.

Income for fiscal year 2013

Net operating income of the SRF for fiscal year 2013 was \$10,216,709. Operating income or loss includes those amounts earned by the ordinary activities of the program, less the related expenses. Ordinary activities of the program include interest earned on loans and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment. Net operating income for fiscal year 2012 was \$9,236,687.

Net operating income increases the amount of net position in the program. Other increases to net position include amounts actually received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In 2013 the amount of federal funds earned was \$49,824,420 and the amount of state matching funds received during the year was \$7,750,000.

Changes in cash position

During fiscal year 2013 the SRF cash increased by \$36,353,323, as can be seen on the Statement of Net Position. Total loan repayments, including principal and interest received from borrowers was \$52,768,761. Interest credited to the SRF account from the State Treasurer's Office totaled \$304,739. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$1,251,788. Cash received from EPA capitalization grant funds totaled \$49,770,341, and matching funds provided by the state of Washington totaled \$10,905,376. While cash increased from fiscal year 2012 to 2013, Ecology would like to see cash continue to decrease as we award more loans for priority water quality projects throughout the state in 2013.

State matching funds

For State Fiscal Year 2013, State matching funds came from 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 fiscal year 2009, 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 was 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 to 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, 2013, 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 SRF 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.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
EXHIBIT 1: Notes to Financial Statements for FY13**

The accompanying notes are an integral part of the financial statements

1. Summary of Significant Accounting Policies

Reporting Entity

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

Operation of the SRF and the Account

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

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 \$630,154,697 in capitalization grants from 1989 through June 30, 2013. The State match share for that awarded amount is \$112,400,559. 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 the ECY through the Water Quality Program (the Program). The Program's primary responsibilities for the SRF includes obtaining capitalization grants from EPA, soliciting potential interested parties, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

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

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
EXHIBIT 1: Notes to Financial Statements for FY13**

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 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.

New Accounting Standards – In June 2011, the GASB issued Statement of Governmental Accounting Standards No. 63 “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*” This statement identifies and defines deferred outflow of resources, deferred inflow of resources and net position. The Statement also standardizes the presentation of the statements involving the deferred inflows and outflows of resources and net position. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. GASB 63 has been adopted within this report. For the period ending June 30, 2013, the Account did not have any Deferred Outflows or Inflows of resources to present.

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

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

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 million. ECY awarded \$1,455,012 in forgivable principal in SFY2013.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
EXHIBIT 1: Notes to Financial Statements for FY13**

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.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
 SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
 EXHIBIT 1: Notes to Financial Statements for FY13**

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, 2013, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was \$4.75 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, 2013	<u>\$136,096,750</u>	<u>\$136,096,750</u>

3. Loans Receivable

The Account makes loans to qualified entities for projects that meet the eligibility requirements of the Clean Water Act. Loans are financed by capitalization grants, state matches, and revolving funds. Interest rates for SFY 2013 were established at 1.4 percent for up to a five year-term and 2.7 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, 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, 2013, are summarized below:

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
 SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
 EXHIBIT 1: Notes to Financial Statements for FY13**

Loans by Category:

Loans receivable by project status at June 30, 2013 are as follows:

	Loan Authorized	Loan Disbursed	Loan Repaid	Remaining Commitment	Receivables Balance
Completed Projects	\$626,274,528	\$626,274,528	\$43,839,171	\$0	\$582,435,357
Projects in Progress	207,446,210	84,420,909	0	123,025,301	84,420,909
Total					\$666,856,266
Payment requests in progress (Received as of June 30, 2013, but not yet paid)					0
Less Amount Due in one year					(41,399,725)
Loans receivable, June 30, 2013 (Net of current maturities)					\$625,456,541

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
EXHIBIT 1: Notes to Financial Statements for FY13**

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

Year ending June 30:	<u>Amount</u>
2014	\$49,669,124
2015	49,556,940
2016	49,137,054
2017	48,296,441
2018	47,908,874
Thereafter	386,792,462
	<u>\$631,360,895</u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
EXHIBIT 1: Notes to Financial Statements for FY13**

Loans to Major Local Entities:

As of June 30, 2013, 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 84 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	\$ 293	\$ 9,309	\$ 8,701
City of Airway Heights	10,895	649	11,544	11,127
City of Arlington	14,558	405	14,963	14,242
City of Bremerton	9,921	155	10,017	6,611
City of Camas	14,364	816	15,180	9,644
City of Centralia	38,705	120	38,094	22,842
City of Chehalis	35,343	44	35,388	25,124
City of Cheney	12,929	1	12,930	9,939
City of Longview	10,767	333	11,099	10,754
City of Mt. Vernon	18,785	764	19,549	15,428
City of Pasco	22,726	2,284	25,011	9,941
City of Sequim	10,864	136	11,000	6,441
City of Stanwood	9,306	0	9,306	5,383
City of Sunnyside	12,377	0	12,377	8,886
City of Tacoma	73,701	1,952	75,652	61,013
City of Toppenish	11,962	0	11,962	9,352
City of Walla Walla	13,780	831	14,610	6,302
City of Wenatchee	7,195	197	7,392	5,356
City of Winlock	6,635	4	6,638	5,258
King Co. Dept. Nat. Resources	168,116	11,739	169,992	87,846
King Co. Wastewtr. Treat. Div.	26,769	103	26,872	17,286
King County	21,046	193	21,239	11,001
Kitsap County Public Works	10,173	178	10,351	6,682
Lake Stevens Sewer District	45,202	4,230	49,432	48,023
Lott Wastewater Alliance	108,265	6,401	105,620	56,015
Mason County	21,313	444	21,742	11,779
Seattle Public Utilities	11,815	310	11,583	10,451
Spokane County	19,140	94	19,234	12,260
Spokane County Conservation District	<u>14,176</u>	<u>377</u>	<u>14,553</u>	<u>9,523</u>
Total	<u>\$789,844</u>	<u>\$33,053</u>	<u>\$802,639</u>	<u>\$523,210</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

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
EXHIBIT 1: Notes to Financial Statements for FY13**

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 \$630,155 in grants to the State, of which \$582,174 has been drawn for loans and administrative expenses. The State has provided a total of \$103,024 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)

<u>Grant Year</u>	<u>Grant Amount</u>	<u>Draws through SFY 2012</u>	<u>2013 Draws</u>	<u>Draws through SFY 2013</u>	<u>Available SFY 2013</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	19,410	0	19,410	0
2008	11,834	11,834	0	11,834	0
2008 (ARRA)	68,152	65,515	1,541	67,056	1,096
2009	11,834	1,027	10,807	11,834	0
2010	35,433	1,181	34,252	35,433	0
2011	25,680	148	3,225	3,373	22,307
2012	24,578	0	0	0	24,578
	<u>\$630,155</u>	<u>\$532,349</u>	<u>\$49,825</u>	<u>\$582,174</u>	<u>\$47,981</u>

WASHINGTON STATE DEPARTMENT OF ECOLOGY
 SRF ANNUAL REPORT FOR SFY 13 (7/1/12 - 6/30/13)
 EXHIBIT 1: Notes to Financial Statements for FY13

As of SFY 2013, State matching contributions were:

	<u>SFY 2012</u>	2013 <u>Contribution</u>	<u>SFY 2013</u>
Washington State Matching Contributions	<u>\$93,370</u>	<u>\$9,654</u>	<u>\$103,024</u>

5. Contingencies and Subsequent Events

Contingencies

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

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

Subsequent Events

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

**STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
EXHIBIT 2: Disbursements and Accruals
June 30, 2013**

	SFY 2013	Federal	State
2013 DISBURSEMENTS FOR LOANS	\$57,757,765	\$48,133,734	\$9,624,031
2013 DISBURSEMENTS FOR ADMIN	179,697	149,742	29,955
TOTAL DISBURSEMENTS	57,937,462	48,283,476	9,653,986
2013 CASH DRAW FROM CAPITALIZATION GRANTS	(48,283,476)		
2013 STATE MATCH (20% of CASH DRAWS)	9,653,986		
2013 100% STATE FUNDS DISBURSEMENTS	20,457,488		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$78,394,950		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.34%		
ADMIN CALCULATION	0.23%		

NOTE: ARRA is not on this report 100% Federal

Note: ARRA is not on this report 100% Federal.

**STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
EXHIBIT 3: Comparative Statement of Net Position
June 30, 2013**

	2013	2012
Assets:		
Current assets:		
Cash and cash equivalents	\$136,096,750	\$99,743,427
Receivables:		
Due from federal government	57,325	99,539
Interest on SRF loans	2,032,101	2,012,951
Other Receivables	0	\$0
Due from other funds	117,533	3,193,346
Total receivables	2,206,959	5,305,837
Collateral Held/Security Lending Agreements	5,808,697	0
Current maturities of SRF loans	41,399,726	37,801,183
Total current assets	185,512,132	142,850,447
Loans receivable, net of current maturities	625,456,541	598,008,111
Total assets	810,968,673	740,858,558
Liabilities and Fund Equities:		
Current liabilities:		
Due to Federal Government	0	0
Accounts payable and accrued expenses	2,627,007	81,407
Due to other funds	32,842	79,074
Obligation Under Security Lending Agreement	5,808,697	0
Unearned Revenue	16,269	\$0
Construction costs payable	5,359	962,996
Total current liabilities	8,490,174	1,123,476
Net Position:		
Restricted	802,478,499	739,735,081
Total Net Position	\$810,968,673	\$740,858,557

The accompanying notes are an integral part of the financial statements

**STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
EXHIBIT 4: Comparative Statement of Revenues,
Expenses and Changes in Net Position
June 30, 2013**

	2013	2012
Operating Revenues:		
Interest income on SRF loans	\$11,421,732	\$10,834,217
Operating Expenses:		
Salaries and benefits	850,947	1,096,956
Supplies	33,050	27,852
Travel	18,257	14,571
Indirect costs	301,482	411,766
Contracts	0	45,985
Equipment	1,287	399
Total operating expenses	1,205,023	1,597,529
Operating income (loss)	10,216,709	9,236,687
Nonoperating Revenue (Expenses)		
Transfer In	0	0
Interest on investments	323,281	518,470
Funds received from EPA	49,824,420	32,155,161
Funds received from State of Washington	7,750,000	7,750,000
Immaterial Adjustments to Prior Period	0	0
Loan Principal Forgiven	(5,370,992)	(10,859,519)
Total non-operating revenue	52,526,709	29,564,111
Increase in Net Position	62,743,418	38,800,798
Net Position, beginning of year 07/01/2012	739,735,081	700,934,282
Net Position, end of year 06/30/2013	\$802,478,499	\$739,735,081

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

STATE OF WASHINGTON
WATER POLLUTION CONTROL REVOLVING ACCOUNT
EXHIBIT 5: Comparative Statement of Cash Flows
June 30, 2013

	Actual 2013	Actual 2012
Cash Flows from Operating Activities:		
Receipts from customers	\$12,079,123	\$8,883,679
Payments to employees and suppliers	(1,251,788)	(1,606,373)
Forgivable Principal Loans Disbursements	(5,365,633)	(10,859,519)
Loans Disbursements	(70,778,473)	(46,430,275)
Repayments on loans	40,689,638	46,159,763
Net cash provided (used) by operating activities	<u>(24,627,133)</u>	<u>(3,852,726)</u>
Cash Flows from Non-capital Financing Activities:		
Funds received from EPA	49,770,341	31,840,269
Transfers from other State funds	10,905,376	4,980,084
Net cash provided (used) by non-capital financing activities	<u>60,675,717</u>	<u>36,820,353</u>
Cash Flows from Investing Activities:		
Receipts from interest on investments	304,739	536,820
Net cash provided (used) by investing activities	<u>304,739</u>	<u>536,820</u>
Net cash provided (used)	36,353,323	33,504,447
Cash and cash equivalents, beginning of year	<u>99,743,427</u>	<u>66,238,980</u>
Cash and cash equivalents, end of year	<u>136,096,750</u>	<u>99,743,427</u>
Excess of revenue over expenses (Net Income)	10,216,709	9,236,687
(Increase) decrease in interest on SRF loans	45,765	235,048
(Increase) decrease in current maturities of SRF loans	611,626	(2,185,586)
(Increase) decrease in loans receivable (net)	40,689,638	46,159,763
(Decrease) increase in payables	(70,825,238)	(46,439,119)
(Decrease) increase in forgivable principal loan payable	(5,365,633)	(10,859,519)
Net cash provided (used) by operating activities	<u>(\$24,627,133)</u>	<u>(\$3,852,726)</u>

The accompanying notes are an integral part of the financial statements