



Annual Report

Washington State Clean Water Revolving Fund (CWSRF)

For State Fiscal Year 2014
July 1, 2013 – June 30, 2014

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For more information contact:

For more information contact:

Water Quality Program
P.O. Box 47600
Olympia, WA 98504-7600
Phone: 360-407-6502

Washington State Department of Ecology - www.ecy.wa.gov/

- Headquarters, Olympia 360-407-6000
- Northwest Regional Office, Bellevue 425-649-7000
- Southwest Regional Office, Olympia 360-407-6300
- Central Regional Office, Yakima 509-575-2490
- Eastern Regional Office, Spokane 509-329-3400

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Washington State Clean Water Revolving Fund (CWSRF)

Water Quality Program – Financial Management Section
Washington State Department of Ecology
Olympia, Washington 98504-7710

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Executive Summary

The purpose of the Clean Water State Revolving Fund (CWSRF) is to provide below market rate loans to assist applicants in meeting the wastewater and other clean water needs of their communities. The Washington State Department of Ecology (Ecology) is solely responsible for managing the CWSRF through its statutory authority Chapter 90.50A RCW: Water Pollution Control Facilities-Federal Capitalization Grants and Chapter 173-98 WAC: Uses and Limitations of the Water Pollution Control Revolving Fund.

As of June 30, 2014, the Ecology CWSRF program had received a total of \$653,401,460 in U.S. Environmental Protection Agency (EPA) capitalization grants. Since the inception of the program in 1988, Ecology has made net binding loan commitments totaling \$1,407,347,856.

Ecology provides this annual report to the EPA and the public to detail the activities undertaken to reach the goals and objectives in the State Fiscal Year (SFY) 2014 Intended Use Plan (IUP) and the activities and obligations under the CWSRF program. This report describes the progress made toward program goals, the financial status of the CWSRF, and compliance with federal CWSRF requirements during SFY 2014 (July 1, 2013, through June 30, 2014).

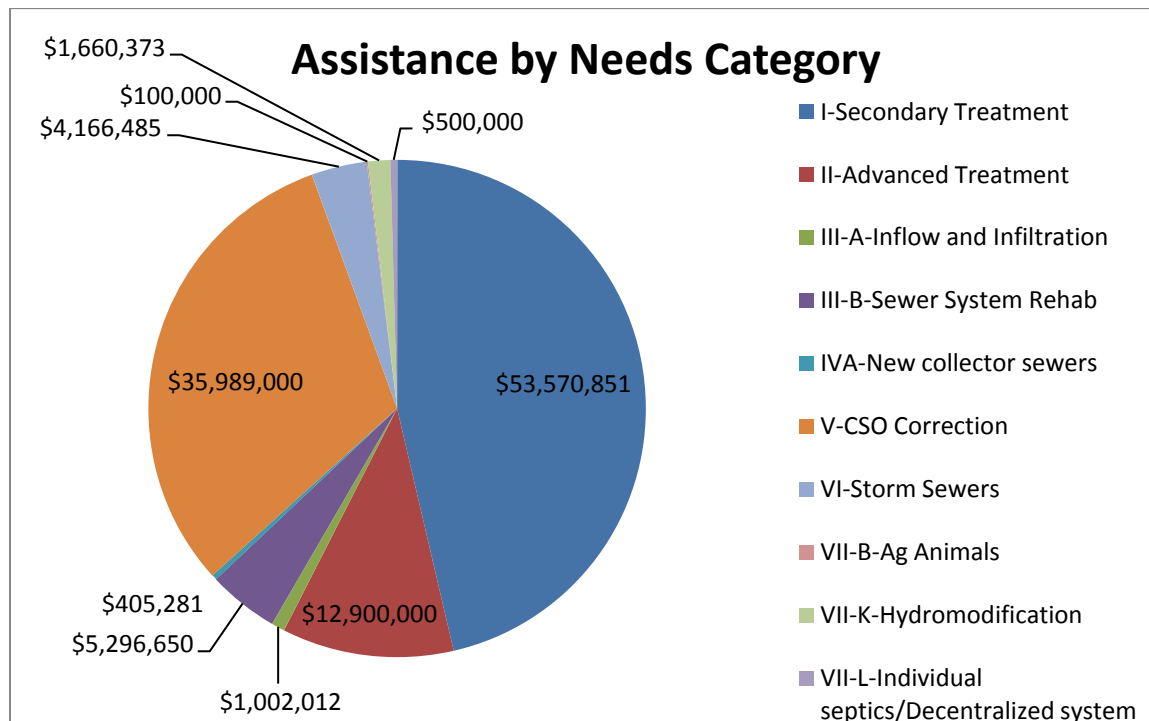
The SFY 2014 IUP described the intended uses of the funds available in the CWSRF loan program and detailed how the CWSRF program planned to commit available funds. Eligible entities submitted loan applications as part of Ecology's Water Quality Program (WQP) combined application process by November 2, 2012. Ecology staff screened, rated, and ranked all submissions based on the requirements in 73.98 WAC and in the Funding Guidelines, State Fiscal Year 2014 Water Quality Financial Assistance Publication #12-10-038. This process provided control over the amount and type of loans made and facilitated compliance with federally mandates. As an indication of current interest in the program, Ecology received 31 applications for over \$143M in loans for the SFY 2014 funding.

The federal capitalization grant used for the SFY 2014 IUP of \$23,246,763 was from the Federal Fiscal Year (FFY) 2013 appropriation. Ecology set the SFY 2014 CWSRF program capacity at \$125 million. In addition to the EPA capitalization grant, CWSRF program funds came from a required state match of 20 percent of the grant (\$4,649,353), principal repayments, and interest and investment earnings.

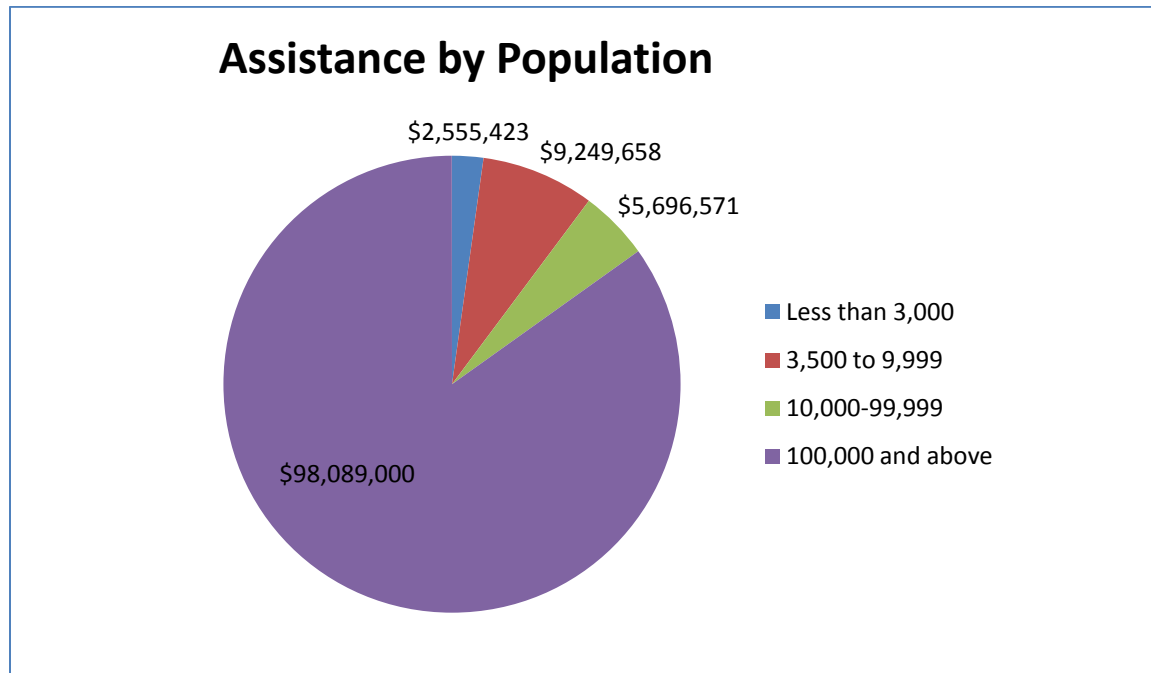
For SFY14, Ecology issued binding commitments for 27 projects totaling \$115,590,652. The weighted interest for these agreements is 2.214 percent (59 percent of the market rate for tax-exempt municipal bonds). Of these binding commitments, \$1,127,903 was provided in the form of forgivable principal (loans that don't have to be repaid). Ecology provided forgivable subsidy as authorized by the FFY13 capitalization grant (cap grant) which set a minimum of \$1,093,620 and up to a maximum of \$1,640,430 for forgivable principal loans.

The FFY13 capitalization grant required Ecology to award 10 percent of the federal cap grant to projects or project elements that fit within one or more of the Green Project Reserve (GPR) categories. These categories include: environmentally innovative, water efficiency, energy efficiency and green infrastructure. Ecology awarded \$5,501,700 or 24 percent of the cap grant to GPR projects or project elements, meeting this 10 percent requirement.

The following graph shows assistance provided by water quality needs category. A total of 98 percent of the funds in SFY14 are being used for 212 projects (wastewater projects) and two percent for 319 (nonpoint activity projects).



The following graph shows the assistance provided across population categories. Because several large projects in Pierce, King and Spokane County were funded in SFY14, 85 percent of the CWSRF funds supported projects in the population category of 100,000 and above.



Introduction

According to the Operating Agreement between EPA and Ecology, Ecology's Water Quality Program (WQP) is solely responsible for managing the CWSRF through its statutory authority Chapter 90.50A RCW: Water Pollution Control Facilities-Federal Capitalization Grants and Chapter 173-98 WAC: Uses and Limitations of the Water Pollution Control Revolving Fund. Ecology's CWSRF program is nationally recognized for its integrated business practices and high degree of accountability and sound management.

The CWSRF continues to grow in dollars and complexity. The long-term health of the CWSRF 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 CWSRF enables Ecology to respond to emerging needs of local governments and tribes as well as federal and state directives.

Sources of funds

The CWSRF 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). Ecology also implemented an administrative charge that went into effect this year. The administrative charge sets Ecology on track to self sustainable administration of the CWSRF into perpetuity.

Each year Ecology combines the EPA capitalization grant with the state match, principal and interest repayments received investment earnings 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 CWSRF is a key funding source used to advance the water quality goals of EPA and Ecology's WQP. The goals of the WQP and the CWSRF 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 CWSRF 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. Ecology is in the process of integrating state funding provided for stormwater projects into its combined water quality funding process.

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 SFY runs from July 1 – June 30. The FFY 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 FFY13 capitalization grant is administered in the SFY14 funding cycle.

What's in this report

This report discusses how Ecology administered the CWSRF FFY13 capitalization grant, state match, and principal and interest repayments during SFY14. 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 FFY13 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY14.
- Presents a Management Discussion and Analysis section providing CWSRF financial statements.
- Includes several exhibits containing the unaudited financial statements of the CWSRF for SFY14.

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 priorities.
 - 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 on scoring consistency and objectivity 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 external partners, including advisory groups and state, federal, and local governments for input on water quality priorities.
 - 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) Expand the universe of sources providing input on priorities by expanding outreach to include tribes, conservation districts, and other organizations.

- CWSRF staff met with representatives from The Trust for Public Land to discuss opportunities to increase awareness that CWSRF funds are available for the purchase of land that would result in water quality protection.
 - Presented information on the financial assistance programs at the Washington Association of Sewer and Water Districts commissioners meeting.
 - Presented information on the financial assistance programs at a Webinar and to Public Works Board “Regional Academy” meetings where local officials are invited to talk about various local topics and learn about financing options available to achieve local project goals.
 - Presented at the Washington Operator Workshop (WOW) Conference.
 - Presented information about funding opportunities at the Infrastructure Assistance Coordinating Council (IACC) annual conference which includes information about all eligible funding categories.
- 4) 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.
- 5) After meeting other obligations, set aside one-third of the Centennial Program and 20 percent of the CWSRF for nonpoint source pollution control projects.
- In SFY14 Ecology set aside 20 percent of CWSRF (\$24,544,897), 33 percent of Centennial grant dollars (\$5,000,000), and 100 percent of Section 319 grant dollars (\$1,568,600) to provide funding for activity projects that seek to reduce or prevent nonpoint sources of pollution.
 - In SFY14, Ecology’s CWSRF loans, Centennial grants, and Section 319 grants provided a total of \$11,490,226 to 41 projects to reduce or prevent nonpoint sources of pollution.
 - In SFY14 Ecology set aside 20 percent of the available CWSRF or (\$24.5M) for nonpoint source pollution control projects, however only \$2.7M was requested and awarded.
- 6) Communicate with the Washington State Legislature regarding needs and priorities for funding.
- Ecology sends its Draft IUP to the Legislature for consideration during budget development. The document calls out funding recommendations for hardship communities.
- 7) Require that funded projects are consistent with the goals of Sections 212, 319, and 320 of the CWA, including Washington’s Section 319 Nonpoint Plan (Washington Water Quality Management Plan to Control Nonpoint Source Pollution) and Washington’s Section 320 Estuary Plan (The 2012/2013 Action Agenda for Puget Sound).
- 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.

- 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 2

Provide funding through a fair, objective, and transparent process.

Objectives and progress

- 1) Involve stakeholders in major funding program development, including rules, guidance documents, policies, and the application process.
 - Ecology regularly requests comments and feedback from stakeholders and clients on potential changes or improvements to its funding guidelines and application process.
 - In SFY14, Ecology organized and attended meetings two meetings with the Financial Assistance Council (FAC) to review and discuss ongoing and emerging CWSRF program issues.
 - Ecology held two of its internal CWSRF Executive Oversight Committee. Among the issues discussed were: program status, fund management, and emerging issues regarding efforts to pass new State CWSRF Administrative Charge Legislation, and coordination with other funding programs in Washington State.
 - Ecology staff and management regularly consult and coordinate with EPA to ensure its funding programs and funding agreements are meeting all federal requirements, including environmental prerequisites. This includes monthly check in calls with EPA program staff.
- 2) Provide the opportunity for public comment on funding offers, rules, and major funding program changes.
 - During SFY14 Ecology developed a Draft IUP for SFY15 offers. Ecology made the Draft IUP available to the public. Ecology held a public meeting March 7, 2013, in Tacoma to discuss the Draft IUP and sought additional public comment during a 30-day public comment period.
 - Ecology held a public hearing on October 10, 2013, at the Pierce County Library and accepted comments on the rule revision of Chapter 173-98 Washington Administrative Code (WAC) to allow for Ecology to establish an administrative charge account where up to 1 percent of the loan repayment interest can be used for administrative costs to run the CWSRF program.
- 3) Review the funding application and evaluation process annually with a focus on consistency and objectivity in rating and ranking.
 - Ecology trains staff assigned to evaluating annually, providing them with tools and resources to help them understand the scoring criteria, what they should be looking for to improve consistency and accurate scores.

- 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 SFY14

Question	Application Questions for SFY14	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 3

Provide the best possible funding packages to financially distressed (hardship) communities.

Objectives and progress

- 1) Review and maintain financial hardship application form annually to ensure the proper evaluation of the effect of sewer fees on residential ratepayers as a percentage of median household income (MHI) for wastewater facilities construction projects.
 - 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 additional subsidy in the form of Centennial grants, forgivable principal CWSRF loans, and reduced interest rate CWSRF loans. Table 2 shows Ecology's hardship continuum for CWSRF loans and forgivable principal. Table 9 shows the agreements signed in SFY14 involving financial hardship funding.

Table 2: SFY14 Hardship Interest Rates and Forgivable principal Continuum

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)
20-Year Loan Rates:	60% of municipal bond rate (2.3%)	40% of municipal bond rate (1.5%)	20% of municipal bond rate (0.8%)	0%
Forgivable Principal Eligibility	Not eligible	50%	75%	100%

- 2) After meeting other obligations, set aside one-third of the Centennial Program to provide grants for wastewater facilities construction projects in small communities where the effect of the project on existing residential ratepayers will result in sewer fees that are two percent or more of the MHI.
- 3) After meeting other obligations, set aside five percent of the CWSRF to provide 50 percent forgivable principal loans to small communities with MHIs 80 percent or less of the state MHI for preconstruction activities such as planning and design of wastewater and stormwater facilities.
- 4) Provide priority rating consideration for small communities with MHIs less than the state MHI for preconstruction activities such as planning and design of wastewater and stormwater facilities.
- 5) Offer reduced interest rates to local governments who target onsite sewage system repair and replacement loans to financially distressed homeowners and small business owners.

Goal 4

Provide technical assistance to funding applicants and recipients.

- 1) Work closely with EPA and other federal agencies to ensure effective coordination associated with major federal environmental requirements under the CWSRF and the Section 319 Program. Also, work closely with appropriate federal and state agencies to ensure effective coordination associated with major state environmental requirements.
 - 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. Ecology also works 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 its 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.

- In SFY14 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: State Environmental Review Process (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.
- 2) Ecology conducts a monthly financial managers meeting to ensure that information is shared internally.
 - Staff coordinated monthly financial managers meetings to meet our training and communication needs on policies, procedures and emerging issues.
 - 3) Conduct four annual funding applicant workshops.
 - Ecology help its applicant workshops across the state on October 8, 9, 15 and 17, 2013.
 - 4) Conduct two annual funding recipient workshops.
 - Ecology held its recipient workshops on July 22, 2014, in Moses Lake and July 31, 2014, in Tacoma for its SFY14 recipients to learn grant and loan management requirements.
 - 5) Maintain the Water Quality Grants and Loans webpage at www.ecy.wa.gov/programs/wq/funding/funding.html
 - 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.
 - 6) Provide individual training to funding recipients when requested.
 - Financial and Project Managers meet with recipients upon request. Project Managers attend preconstruction meetings to discuss expectations, procedures and requirements with the recipient, consultants and contractors.

Goal 5

Provide sound financial management of the funding programs and projects.

Objectives and progress

- 1) Evaluate the CWSRF annually to ensure the availability of funds in perpetuity as defined by Chapter 173-98 WAC, Use and Limitations of the Water Pollution Control Revolving Fund.
 - Ecology establishes interest rates for the CWSRF 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 CWSRF loans in SFY14 were:
 - 1.1 percent for a five-year loan (30 percent of tax-exempt municipal bonds).

- 2.3 percent for a 20-year loan (60 percent of tax-exempt municipal bonds).
 - Ecology monitors the CWSRF 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 July 2012, the tax-exempt municipal bond interest rate was 3.78 percent, and the weighted average of all CWSRF loans awarded in SFY 14 was 2.214 percent (59 percent of the market rate for tax-exempt municipal bonds).
- 2) Conduct financial capability assessments on CWSRF loan recipients.
- CWSRF 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 CWSRF 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 CWSRF account.
 - Ecology staff conducts a financial capability assessment on each CWSRF 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 CWSRF 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.
- 3) Coordinate with Ecology’s fiscal office on the overall financial management issues and prevent and resolve possible audit issues.
- Ecology’s CWSRF staff regularly coordinate with Ecology’s Fiscal Office staff.
 - The CWSRF program is subject to annual state and federal audits (performance reviews). Ecology is responsive to auditor expectations and readily implements suggestions to improve the CWSRF program.
 - In addition, Ecology monitors recipient audit reports and takes action when appropriate.
 - Ecology Financial Managers and Project Managers continue to provide appropriate oversight of projects to ensure fiscal accountability.
- 4) Conduct internal workgroup meetings to identify problems, needs and emerging issues.
- Regional Project Managers meet every other month and Financial Managers meet monthly to discuss problems, needs, and emerging issues to clarify procedures, ensure consistency and head off any potential problems.

- In June of 2014, Ecology's financial management staff planned and executed a Project Manager Summit where Project and Financial Managers gathered to discuss policies, procedures and emerging issues. The goal of the two day event was to make sure headquarters and regional staff had a clear understanding of roles, responsibilities and could discuss issues or concerns.
- 5) 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 CWSRF, Centennial, and the Section 319 programs. Integration of the Stormwater Financial Assistance program occurred during SFY14 and is being implemented in the SFY16 application process. 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.
- 6) Coordinate with advisory groups and councils, including the Financial Assistance Council (FAC) and State CWSRF Executive Oversight Committee.
- Met with FAC in August 2013 and February 2014 to review and discuss ongoing and emerging CWSRF and combined financial assistance program issues.
 - Conducted two internal CWSRF Executive Oversight Committee meetings to review program status, fund management, and emerging issues.
- 7) Work closely with other funding agencies and programs to leverage funds including, Community Development Block Grant (CDBG), Community Economic Revitalization Board (CERB), Department of Health (DOH), Rural Community Assistance Corporation (RCAC), Public Works Board (PWB), and US Department of Agriculture Rural Development (RD).
- Coordinated with the Community Development Block Grant (CDBG) on funding projects.
 - Coordinated with DOH on funding for Large On-Site Septic (LOSS) systems.
 - Coordinated with RD on funding for nine wastewater projects.
 - 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 the IACC Chair and Vice Chair are Ecology staff members. Funding agency representatives work to coordinate the infrastructure funding programs to

facilitate sharing information and problem solving. The IACC hosted its annual conference on October 22-24, 2013, where several Ecology 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.

- Participated in the Maximizing Resources in a Coordinated Manner Workgroup. The Maximizing Resources Workgroup is a subgroup of the IACC. It is composed of representatives from most infrastructure funding programs operating in the state. The workgroup meets quarterly to discuss projects needing funding and to develop ways to maximize funding and simplify processes.
- Contracted with RCAC to provide special technical assistance for small communities.

Meeting Key Conditions of the Operating Agreement and Capitalization Grant

In 2008, Ecology and EPA amended the Operating Agreement for the CWSRF program. The agreement contains numerous conditions that must be met. The FFY13 grant was a full year's continuing resolution, all provisions from FFY12 procedures remained in effect. Ecology is in compliance with all conditions of the Operating Agreement, FFY12 and FFY13 Capitalization Grants. 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

Ecology signed 27 CWSRF agreements totaling \$115,590,652 in SFY14. Table 4 provides information on agreements signed or binding commitments made in SFY14.

Table 3: Declined Funding Offers

Application Number	Applicant	Amount
FP14049	City of Toledo	\$3,613,000
FP14043	City of Pasco	\$460,500
FP14046	City of Kennewick	\$500,000
FP14024	City of Brewster	\$63,947
FP14085	Port of Sunnyside	\$3,010,162
Total	5 projects	\$7,647,609

Table 4: CWSRF Agreements/Binding Commitments in SFY14

Application Number	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Standard Loan	CWSRF Forgivable Principal	Loan Term	Loan Rate (%)	Binding Commitment Date
FP14015	L1400001	Rockford, Town of	Rockford Wastewater Treatment Facility Improvements	Secondary Treatment	\$ 1,093,911	\$ 1,093,911		20	1.6	1/8/2014
FP14033	L1400002	Edmonds, City of	WWTP Electrical and Control System Improvements	Secondary Treatment	\$ 1,312,603	\$ 1,312,603		20	2.3	1/14/2014
FP14035	L1400003 /L14S0003	Deer Park, City of	Deer Park Aerated Lagoon Screening and Aeration Project	Secondary Treatment	\$ 639,377	\$ 593,952	\$ 45,425	20	1.6	12/30/2013
FP14066	L1400004	Spokane, City of	Wet Weather Integrated Strategic Planning	CSO Correction	\$ 5,220,000	\$ 5,220,000		20	2.3	1/9/2014
FP14067	L1400005	Spokane, City of	CSO Basin 26 Control Facility (changed to CSO Basin 24/25 and 26 Control Facility)	CSO Correction	\$ 1,195,000	\$ 1,195,000		20	2.3	1/9/2014
FP14027	L1400006	Tekoa, City of	Tekoa Infiltration and Inflow Reduction Improvements	Infiltration and Inflow	\$ 824,102	\$ 824,102		20	2.3	12/3/2013
FP14068	L1400007	Spokane, City of	CSO 34-1 Project	CSO Correction	\$ 3,478,000	\$ 3,478,000		20	2.3	1/9/2014
FP14001	L1400008	Liberty Lake Sewer and Water District	Water Reclamation Plant Upgrades – Phase II	Advanced Treatment	\$ 900,000	\$ 900,000		5	1.1	1/3/2014
FP14017	L1400009 /L14S0009	Pend Oreille County	Selkirk School Dist. Wastewater Treatment Upgrade Phase 2	Secondary Treatment	\$ 57,110	\$ 40,405	\$ 16,705	20	2.3	3/14/2014
FP14060	L1400010 /L14S0010	Bellingham, City of	Squalicum Creek Water Quality & Biotic Improvements: Phase II	Hydro-modification	\$ 1,660,373	\$ 1,245,280	\$ 415,093	20	2.3	12/18/13

Application Number	Agreement Number	Recipients Name	Project Title	Needs Category	Total Assistance	CWSRF Standard Loan	CWSRF Forgivable Principal	Loan Term	Loan Rate (%)	Binding Commitment Date
FP14069	L1400011	Spokane, City of	CSO Basin 34-2 and 34-3 Control Facilities	CSO Correction	\$ 20,719,000	\$ 20,719,000		20	2.3	1/9/14
FP14008	L1400012 /L14S0012	Carbonado, Town of	Carbonado Gen. Sewer Plan/Wastewater Facilities Plan and Environmental Report	Sewer System Rehabilitation	\$ 100,000	\$ 50,000	\$ 50,000	5	1.1	3/21/14
FP14065	L1400013	Spokane, City of	Cannon Hill Pond Retrofit	CSO Correction	\$ 277,000	\$ 277,000		20	2.3	4/1/14
FP14040	L1400014	Sumner, City of	Sanitary Sewer Improvements	Sewer System Rehabilitation	\$ 4,945,000	\$ 4,945,000		20	2.3	4/4/14
FP14063	L1400015	Spokane, City of	Cochran Basin River Runoff Reduction	CSO Correction	\$ 5,100,000	\$ 5,100,000		20	2.3	3/6/14
FP14053	L1400016 /L14S0016	McCleary, City of	City of McCleary General Sewer Plan	Infiltration/Inflow	\$ 65,000	\$ 32,500	\$ 32,500	5	1.1	2/3/14
FP14081	L1400018 /L14S0018	Concrete, Town of	2013 Sanitary Sewer CCTV and I&I Study	Infiltration/Inflow	\$ 112,910	\$ 56,455	\$ 56,455	5	1.1	1/29/14
FP14010	L1400019 /L14S0019	Kitsap County	Ridgetop Boulevard Green Street Retrofit	Storm Sewers	\$ 1,500,000	\$ 1,125,000	\$ 375,000	5	1.1	3/24/14
FP14022	L1400020	Pierce County Public Works and Utilities – Sewer Utility	Chambers Creek Reg. Wastewater Treatment Plant Expansion	Secondary and Advanced Treatment	\$ 60,000,000	\$ 60,000,000		20	2.3	7/29/14
FP14079	L1400021	Spokane Conservation District	Spokane County Livestock and Land Program	Agricultural Animals	\$ 100,000	\$ 100,000		5	1.1	3/14/14
FP14036	L1400023	Everson, City of	Everson Wastewater Treatment Plant Upgrade	Secondary Treatment	\$ 2,360,000	\$ 2,360,000		20	2.3	2/28/14
FP14006	L1400024	Blaine, City of	Vista Terrace Area Sewer ULID and Septic	New Collector	\$ 405,281	\$ 405,281		20	1.8	6/25/14

			Connections	Sewers						
Application Number	Agreement Number	Recipients Name	Project Title	Needs Category	Total Assistance	CWSRF Standard Loan	CWSRF Forgivable Principal	Loan Term	Loan Rate (%)	Binding Commitment Date
FP14061	L1400025	Bellingham, City of	Main Replacements and Water Quality	Storm Sewers	\$ 1,647,000	\$ 1,647,000		5	1.1	5/7/14
FP14078	L1400026 /L14S0026	LaCrosse, Town of	LaCrosse Wastewater Facility Improvements	Sewer System Rehabilitation/ Secondary Treatment	\$ 359,500	\$ 272,775	\$ 86,725	20	1.7	4/1/14
FP14080	L1400027 /L14S0027	Spokane Conservation District	Spokane County Septic Tank Replacement Loan Program	Individual/ Decentralized System	\$ 500,000	\$ 450,000	\$ 50,000	5	1.1	4/18/14
FP14032	L1400028	Olympia, City of	State Avenue Stormwater Retrofit	Storm Sewers	\$ 619,485	\$ 619,485		20	2.3	6/4/14
FP14076	L1400029	Richland, City of	Richland Decant Facility Retrofit and Relocation	Storm Sewers	\$ 400,000	\$ 400,000		5	1.1	6/18/14
Total					\$115,590,652	\$114,462,749	\$1,127,903		2.215	

Binding commitments

Ecology is required to make binding commitments for 120 percent of the federal grant payment within one year following receipt. Table 5 shows that Ecology easily met this requirement for SFY14.

Table 5: Binding Commitments with Respect to Federal Grant Payments in SFY14

Capitalization Grant Received During SFY14	\$23,246,763
Binding Commitments Required Within One Year of Receipt	\$27,896,116
Binding Commitments at the End of SFY14	\$115,590,652
Percent of Capitalization Grant under Binding Commitment at the End of SFY14	497%

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. The memo explains what is meant by timely and expeditious. Table 6 shows the cumulative funds received, cumulative principal and interest collected, and the cumulative administration expenditures through SFY13 in addition to the cumulative loan obligations through SFY14. The table shows that Ecology has committed more than 105.20 percent of the cumulative funds available through SFY14.

Table 6: Timely and Expeditious Use of Federal Funds

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY13)	\$562,002,797	\$68,151,900	\$630,154,697
State Match (cumulative through SFY13)	112,400,559	-	112,400,559
Principal and Interest Collected (cumulative through SFY13)		-	585,387,324
State Treasurer's Office Interest (cumulative through SFY13/cash basis)		-	35,084,876*
Administration 4% (cumulative through SFY13)	(22,480,112)	(2,726,076)	(25,206,188)
Total Funds (cumulative through SFY13)	651,923,244	65,425,824	1,337,821,268
Loan Obligations (cumulative through SFY14)	\$1,341,898,207	\$65,449,649	\$1,407,347,856
Loans as % of Funds Available			105.20%

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

State match

In SFY13, the State Treasurer deposited into the CWSRF account funds sufficient to meet the match requirement for SFY14 administrative costs. In SFY14 legislative authority was provided to fund the match requirement for the loan disbursements through the State Taxable Building Construction Account.

Green Project Reserve

The FFY13 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 FFY13 grant totaled \$23,246,763 which set the GPR requirement at \$2,324,676.

In SFY14 Ecology made specific offers of \$9.5 M to the six highest-ranked GPR-eligible projects. Port of Sunnyside (FP14085) declined the loan offer and City of Bellingham (FP14060) final loan amount was reduced. Table 7 shows the five projects that received \$7,162,073 in GPR funds for SFY14.

During the FFY12, Ecology fell short of meeting the 10 percent requirement due to projects declining funds at the end of the fiscal year. At that point it was too late to offer them to another project. To make up the FFY12 shortfall, Ecology assigned City of Bellingham's GPR to FFY12 cap grant in CBR and isn't counting it in our FFY13 GPR total. Ecology's FFY13 GPR total is \$5,501,700 or 24 percent of the cap grant meeting the 10 percent requirement.

Table 7: Green Project Reserve (GPR) Offers in SFY14

Rank	Agreement Number	Applicant Name	Project Title	GPR Designation	Standard Loan	Forgivable Principal Loan
1	L1400026/ L14S0026	LaCrosse, Town of	LaCrosse Wastewater Facility Improvements	Energy Efficiency 3.2-2	\$4,975	\$86,725
13	L1400019/ L14S0019	Kitsap County	Ridgetop Boulevard Green Street Retrofit	1.2-7 (Green Infrastructure)	\$1,125,000	\$375,000
37	L1400027/ L14S0027	Spokane Conservation District	Spokane County Septic Tank Replacement Loan Program	4.2-6a (Environmentally Innovative)	\$450,000	\$50,000
62	L1400020	Pierce County Public Works	Chambers Creek Regional Wastewater Treatment Plant Expansion	2.2-6 (Water Efficiency), 4.2-5 (Environmentally Innovative)	\$3,410,000	
GPR For FFY13 Cap Grant					\$4,989,975	\$511,725
2	L1400010/ L14S0010	Bellingham, City of	Squalicum Creek Water Quality and Biotic Integrity Improvements: Phase II	1.2-7 (Green Infrastructure)	\$1,245,280	\$415,093
GPR Counted Towards FFY12 Cap Grant					\$1,245,280	\$415,093
Total GPR for SFY14					\$6,235,255	\$926,818

Additional subsidization and sustainability of funded projects

The FFY13 grant from EPA specifies that Ecology must use a minimum of \$1,093,620 and up to a maximum of \$1,640,430 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 for to GPR-eligible projects.

In SFY14 Ecology made offers of forgivable principal loans to ten applicants for a total of \$1,623,845. The City of Brewster and Port of Sunnyside declined their offers. The City of Bellingham's offer was reduced based on lower project costs. Two additional communities were identified as eligible for Forgivable Principal loan under the preconstruction category after publication of the IUP. To correct this error, the Town of LaCrosse was offered an additional \$63,800 and Pend Oreille County was offered \$16,705 in Forgivable Principal for preconstruction. The net result of these changes was a reduction in the amount of forgivable principal awarded to nine projects totaling \$1,127,903, which is within the required range. Table 8 summarizes the projects that received forgivable principal loans for their projects.

Table 8: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY14

Agreement Number	Recipient	Project Title	GPR Forgivable Principal Loans	Preconstruction Forgivable Principal Loan	Sustainability Criterion Met	Population Served
L14S0026	Lacrosse, Town of	LaCrosse Wastewater Facility Improvements	\$22,925	\$63,800	1,3	318
L14S0010	Bellingham, City of	Squalicum Creek Water Quality & Biotic Improvements: Phase II	\$415,093		3	81,000
L14S0019	Kitsap County	Ridgetop Boulevard Green Street Retrofit	\$375,000		3	17,000
L14S0003	Deer Park, City of	Deer Park Aerated Lagoon Screening and Aeration Project		\$45,425	1	3,800
L14S0012	Carbonado, Town of	Town of Carbonado General Sewer Plan/Wastewater Facilities Plan and Environmental Report		\$50,000	2	610
L14S0027	Spokane Conservation District	Spokane County Septic Tank Replacement Loan Program	\$50,000		1,3	450,000
L14S0018	Concrete, Town of	2013 Sanitary Sewer CCTV and I&I Study		\$56,455	2,3	710
L14S0016	McCleary, City of	City of McCleary General Sewer Plan		\$32,500	2	1,653
L14S0009	Pend Oreille County	Selkirk School District Wastewater Treatment Upgrade Phase 2		\$16,705	1	165
8 Projects			\$863,018	\$264,885		

Assistance to hardship communities

Ecology is committed to providing financial assistance to hardship communities. Table 9 outlines the assistance provided in the form of reduced interest rate and Centennial grant to make these projects more affordable for five communities.

Table 9: Hardship Assistance Provided in SFY14

Agreement Number	Recipient	Project Title	Hardship Level	CWSRF Standard Loan	Weighted Interest Rate	Centennial Grant
L1400026	Lacrosse, Town of	LaCrosse Wastewater Facility Improvements	Moderate	\$359,500	1.8%	\$231,900
L140009	Pend Oreille County	Selkirk School Dist. Wastewater Treatment Upgrade Phase 2	Severe	\$40,405	2.3%	\$586,950
L1400024	Blaine, City of	Vista Terrace Area Sewer ULID and Septic Connections	Elevated	\$405,281	1.8%	\$395,719
L1400003	Deer Park, City of	Deer Park Aerated Lagoon Screening and Aeration Project	Moderate	\$593,952	1.6%	\$487,163
L1400001	Rockford, Town of	Rockford Wastewater Treatment Facility Improvements	Moderate	\$1,093,911	1.6%	\$1,805,343
				\$2,493,049		\$3,507,075

State Environmental Review Process (SERP) and federal cross cutters

Ecology is required to ensure that SERP is met for all facility design or construction projects receiving funding through the CWSRF. 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 CWSRF State Environmental Review Process and Federal Cross Cutter Guidelines and provided them to EPA for their review in June 2011.

In SFY14, a new staff person took over the SERP Coordinator position and is working closely with EPA to address the remaining questions and comments and finalize the document. The draft guidelines can be found at:
www.ecy.wa.gov/programs/wq/funding/GrantLoanMgmtDocs/Eng/DraftSERPandCrossCutGuidance.pdf.

Ecology staff continue to ensure funded projects meet its SERP and federal cross cutter requirements.

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 of each loan executed loan. Table 10 is a summary report derived from the Clean Water Benefits Reporting (CBR) database. This output report summarizes the clean water benefits for the loans executed in SFY14.

Table 10: Washington CW Benefits Summary Report for Projects with Water Uses Reporting

	Loans		Projects			Borrowers		
	Assistance Dollars (millions)	Loan Count	Assistance Dollars (millions)	Subsidy Dollars (millions)	Project Count	Facility Population (millions)	Facility Flow (MGD)	Borrower Count
Total Records	115.6	27	115.6		27	1.2	421	20
Records with Benefits Data	115.5	26	115.5	39.0	26	1.2	421	19
Impacting Human Health	114.3	24	114.3	38.7	24	1.2	421	17
	99%	92%	99%		92%	10,236*		63%
With Impaired Waterbody			52.2	17.1	18	.8	363	12
			45%		69%	15,912*		63%
With Water Body Meeting Standards			62.7	21.7	5			
To Improve Water Quality			109.6	37.1	21			
To Maintain Water Quality			5.9	1.9	5			
To Achieve Compliance			35.9	12.0	10			
To Maintain Compliance			76.3	26.1	9			

* People served per million \$

CWSRF program changes and development

CWSRF Administrative Charge

On May 1, 2013, the Governor signed SHB 1141 which amended RCW 90.50A.010 establishing the water pollution control revolving fund administrative account. On December 21, 2013, Ecology adopted an amendment to Chapter 173-98 Washington Administrative Code (WAC), *Uses and Limitations of the Water Pollution Control Revolving Fund* allowing for a one percent charge on loans to be used for administrative costs related to CWSRF. Ecology began applying the charge to all loans entering repayment on or after that date. As of June 30, 2014, the total administrative charge deposited into the Administrative Account (564) totaled \$15,278. The total in the account is lower than anticipated due to time extensions on loans.

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. 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. Ecology worked with EPA to come up with a solution, and starting in SFY12, Ecology began coding most agreements with federal capitalization dollars. Ecology was making some headway in drawing down open grants.

The headway slowed this biennium because of a technical error in how the State match was placed in the budget. The 2013-15 Biennial budget directly appropriated \$15.5 million for State match from the State Building Construction Account instead of the way it had historically been authorized in prior budgets as a Treasurer's transfer into account 727. The Treasurer's transfer is preferred because it allows for a transfer directly into Fund 727.

The direct appropriation that occurred in the 2013-15 biennium created a challenge as to how to get the state match deposited into fund 727 as required by the CWA. Ecology worked with the state Office of Financial Management and EPA to develop accounting procedures to spend down the state match. For SFY14 \$6,171,885 of the State match was spent down. This resulted in spending the remaining FFY11 capitalization grant. As of June 30, 2014, Ecology has FFY12 and FFY13 capitalization grants open. Ecology will be requesting a technical fix in the 2015 supplemental budget to change the direct appropriation back to a Treasurer's transfer.

Web based grant and loan management system, EAGL, in use

During SFY14, Ecology accepted applications for the SFY15 cycle using a new web based grant and loan management system, Ecology Administration of Grants and Loans (EAGL). Those applications were screened and evaluated within the EAGL system. For funded projects, the system was used to pull out application information for the agreement negotiation process. Once negotiations are finalized, the data in the system is edited to be consistent with the final version of the scope of work and budget and routed for internal review. The system will generate the final agreement for signature, and once an agreement is activated, recipients will be able to submit payment requests and progress and final closeout reports within the system. As each step in the new process affects our financial and project managers and recipients, staff worked to test and document procedures for training purposes.

On-line application efficiencies include:

- Reduced 400 lbs of paper. The following environmental benefit was calculated using the EPA WARM model.
 - Reduced Green house gas emissions: -1 Metric Tons of Carbon Dioxide Equivalent (MTCO₂E).
 - Reduced Energy consumption:-5 BTU.
 - Conserving 1 Barrel of Oil.
 - Conserving 42 Gallons of Gasoline.
- Reduced 56 staff hours to process applications.
- Eliminated applicants driving to Ecology to bring us their applications last minute.
- Eliminated the cost of applicant mailing applications to Ecology and mailing applications to the regions for evaluation.
- Provides instant access to reports of the number and breakdown of application information.
- Reduced the need for two “shadow systems.”

Other benefits include:

- Increased transparency and accountability.
 - Recipients can view their evaluation scorecards and evaluator comments.
 - The system tracks and dates changes made to forms.
 - Anyone can go in and see the status of an application and agreement.
- One location for documents related to the agreement. No longer separate regional and headquarter files.
- Eliminated the paper forms for payment requests. Recipients will only have to report expenditures and upload supporting documents. The system does math which will eliminate most of the cause for rework on payment requests in the paper world.
- The agreement template is locked when the funding opportunity is created. This gives our contracts office certainty that terms and conditions aren't being edited. This eliminates agreements being routed through contracts for review, saving time in the approval process.
- Reviews can be done simultaneously electronically, eliminating staff not knowing whose desk the agreements are on.

Fund Management and Health of the Account

The CWSRF account balance has grown over the years approximately \$167M at the end of SFY14. Quarterly revenue into the account from repayments and federal grants has outpaced quarterly expenditures. This situation leaves too much funding underutilized that could be awarded as loans. Historically, Ecology has based CWSRF loan offers on the available cash in the account. In consultation with EPA and using other state examples, Ecology has developed an CWSRF cash flow model 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 by projecting future loan repayments, while maintaining a sufficient fund balance.

Ecology is coordinating closely with EPA Region 10 CWSRF 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 CWSRF program documents, including the IUP approved by EPA. Many states actively use this model; examples include Oregon and California, which EPA cites as states that have successfully moved from a cash-on-hand approach to a cash flow modeling approach. In 2006, EPA published an overview titled "Accelerated Loan Commitment in the CWSRF Program" (EPA 816N-00-003E). Ecology used this EPA publication as guidance for developing a cash flow approach.

Ecology began accelerating in SFY14 by including less than one year of anticipated principal and interest repayments in the funds available. In SFY15, Ecology included two and a half years of anticipated principal and interest repayments in the funds available. Ecology's cash flow model projects that the account balance will drop to \$40M by 2016. Ecology's goal is to get the cash balance down to approximately \$40M and maintain that balance over time. Ecology is updating its cash flow model quarterly and will use it to make future decisions related to appropriation requests and funds available each funding cycle.

Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) introduces the annual financial statements of the CWSRF for the year ended June 30, 2014, and supplements these financial statements. Ecology CWSRF 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 CWSRF program

The CWSRF 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 EPA. The FFY13 grant award was \$23,246,763. Ecology matches 20 percent of the grant award with state funds, or \$4,649,353. The funding levels for the CWSRF 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 SFY14 was \$125M as published in Ecology's SFY14 IUP. CWSRF loan interest rates are between zero and 2.3 percent.

Net position of the CWSRF

The Washington CWSRF program has no capital assets and no related debt. The total amount of reported net position as of June 30, 2014, is \$848,868,958.

Income for fiscal year 2014

Net operating income of the CWSRF for SFY14 was \$10,804,637. 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 SFY13 was \$10,216,709.

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 2014 the amount of federal funds earned was \$32,020,672 and the amount of state matching funds received during the year was \$5,950,069.

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Changes in cash position

During SFY14 the CWSRF cash increased by \$30,842,656, as can be seen on the Statement of Net Position. Total loan repayments, including principal and interest received from borrowers was \$54,412,151. Interest credited to the CWSRF account from the State Treasurer's Office totaled \$205,849. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$1,078,206. Cash received from EPA capitalization grant funds totaled \$32,020,672, and matching funds provided by the state of Washington totaled \$5,950,069. While cash increased from SFY13 to SFY14, Ecology would like to see cash continue to decrease as it awards more loans using cash flow acceleration for priority water quality projects throughout the state in 2014.

State matching funds

For SFY14, State matching funds came from the State Taxable Building Construction Account. Revenue from this account is derived from a combination of taxes and transfers.

Recovery Act CWSRF

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 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.

EPA awarded a capitalization grant from the Recovery Act for FFY09, 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 complete and as of July 31, 2014, 100 percent of the project funds have been disbursed.

Conclusion

This MD&A is intended to provide a summary of the financial condition of the CWSRF 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.

The accompanying notes are an integral part of the financial statements

1. Summary of Significant Accounting Policies

Reporting Entity

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

Operation of the CWSRF and the Account

The CWSRF 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 \$653,401,460 in capitalization grants from 1989 through June 30, 2014. The State match share for that awarded amount is \$117,049,912. For the period of this report, State match is transferred to the Account from the State Taxable Building Construction Account (Account No. 355).

The Account is administered by the Ecology through the Water Quality Program (WQP). The WQP's primary responsibilities for the CWSRF 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 CWSRF 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.

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Not included in these financial statements are the funds accumulated in The Water Pollution Control Revolving Administration Account (Account 564) discussed on page 23. This account was created in FY14 as a separate account to receive the newly instated Administrative Charge on all new loan repayments. The account has accumulated \$15,277 at the end of FY14.

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.

Cash and Cash Equivalents

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

Loans Receivable

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

Forgivable Principal

In 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

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WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SFY 14 (7/1/13 - 6/30/14)
EXHIBIT 1: Notes to Financial Statements for FY14

principal hardship loans. The maximum forgivable principal loan amount for each hardship recipient is \$5 million. Ecology awarded \$1,127,903 in forgivable principal in SFY2014 as outlined in Table 8.

Funds from EPA

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

2. Deposits and Investments

All monies of the Account are deposited with the State Treasurer's Office as part of the State's Treasury/Trust Portfolio, and are considered cash. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The Account's proportionate share of the investment income, based on the average daily balance for the period, is credited to the Account monthly. The Treasurer charges the Account one-half of one percent of the average daily balance for administration costs. As of June 30, 2014, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was \$5.33 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, 2014	<u>\$166,939,406</u>	<u>\$166,939,406</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 2014 were established at 1.1 percent for up to a five year-term and 2.3 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, 2014, are summarized below:

Loans by Category

Loans receivable by project status at June 30, 2014 are as follows:

	Loan Authorized	Remaining Commitment	Receivables Balance
Completed Projects	\$898,023,903	\$0	\$593,300,712
Projects in Progress	200,180,321	112,515,836	87,664,486
Total			\$680,965,198
Payment requests in progress (Received as of June 30, 2013, but not yet paid)			0
Less Amount Due in one year			(43,615,992)
Loans receivable, June 30, 2013 (Net of current maturities)			\$637,349,206

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EXHIBIT 1: Notes to Financial Statements for FY14**

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

<u>Year ending June 30:</u>	<u>Amount</u>
2015	\$54,813,828
2016	54,437,749
2017	53,597,137
2018	53,209,569
2019	51,983,755
Thereafter	412,265,924
	<u>\$680,307,963</u>

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EXHIBIT 1: Notes to Financial Statements for FY14**

Loans to Major Local Entities

As of June 30, 2014, 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 83 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	\$ 8,320
City of Airway Heights	10,895	649	11,544	10,671
City of Arlington	14,558	717	15,275	13,630
City of Bremerton	9,509	155	9,664	6,143
City of Camas	14,364	816	15,180	8,872
City of Centralia	37,803	106	37,908	21,263
City of Chehalis	35,343	44	35,388	23,312
City of Cheney	12,929	1	12,930	9,273
City of Kettle Falls	5,249	115	5,364	5,135
City of Longview	10,767	333	11,099	10,319
City of Mt. Vernon	18,785	764	19,549	14,446
City of Pasco	22,726	2,284	25,011	8,557
City of Port Angeles	10,000	187	10,187	10,187
City of Pullman	7,040	213	7,253	7,253
City of Sequim	10,864	136	11,000	5,917
City of Shelton	6,279	110	6,362	5,217
City of Spokane	12,601	773	7,353	6,569
City of Sunnyside	12,377	0	12,377	8,251
City of Tacoma	73,701	1,952	75,652	57,449
City of Toppenish	11,962	0	11,962	8,735
City of Walla Walla	13,389	831	14,220	5,508
King Co. Dept. Nat. Resources	136,901	4,494	139,741	109,972
King Co. Wastewtr. Treat. Div.	26,769	103	26,872	16,067
King County	21,046	193	21,239	9,933
Kitsap County Public Works	10,173	178	10,351	6,170
Lake Stevens Sewer District	45,202	4,230	49,432	46,088
Lott Wastewater Alliance	77,685	2,123	70,140	60,470
Mason County	18,210	395	18,605	11,111
Seattle Public Utilities	11,815	331	12,146	10,319
Spokane County	19,140	94	19,234	11,305
Spokane County Conservation District	<u>21,107</u>	<u>386</u>	<u>14,498</u>	<u>10,663</u>
Total	<u>\$742,205</u>	<u>\$23,005</u>	<u>\$746,844</u>	<u>\$547,124</u>

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U.S. Environmental Protection Agency*

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

4. Funds from EPA and the State of Washington

The Account is funded by grants from EPA authorized by the Clean Water Act and by matching funds from the State. All funds drawn are recorded as non-operating revenue from the EPA and Washington State. Since 1989, EPA has awarded a total of \$653,402 in grants to the State, of which \$614,122 has been drawn for loans and administrative expenses. The State has provided a total of \$109,196 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:

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(Figures are in Thousands)

As of SFY 2014, State matching contributions were:	Grant Year	Grant Amount	Draws through SFY 2013	2014 Draws	Draws through SFY 2014	Available SFY 2014
	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	67,056	1,096	68,182	0
	2009	11,834	11,834	0	11,834	0
	2010	35,433	35,433	0	35,433	0
	2011	25,680	3,373	22,307	25,680	0
	2012	24,578	0	8,545	8,545	16,033
	2013	23,247	0	0	0	23,247
		<u>\$653,402</u>	<u>\$582,174</u>	<u>31,948</u>	<u>\$614,122</u>	<u>\$39,280</u>

	<u>SFY 2013</u>	<u>2014 Contribution</u>	<u>SFY 2014</u>
Washington State Matching Contributions	<u>\$103,024</u>	<u>\$6,172</u>	<u>\$109,196</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, 2014

	SFY 2014	Federal	State
2014 DISBURSEMENTS FOR LOANS	\$35,762,096	\$29,800,552	\$5,961,544
2014 DISBURSEMENTS FOR ADMIN	1,261,793	1,051,452	210,341
TOTAL DISBURSEMENTS	37,023,889	30,852,004	6,171,885
2014 CASH DRAW FROM CAPITALIZATION GRANTS	(30,852,004)		
2014 STATE MATCH (20% of CASH DRAWS)	6,171,885		
2014 100% STATE FUNDS DISBURSEMENTS	20,047,159		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$57,071,047		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.33%		
ADMIN CALCULATION	2%		

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, 2014

	2014	2013
Assets:		
Current assets:		
Cash and cash equivalents	\$166,939,406	\$136,096,750
Receivables:		
Due from federal government	1,369,679	57,325
Interest on CWSRF loans	1,802,605	2,032,101
Other Receivables	0	0
Due from other funds	118,436	117,533
Total receivables	3,290,720	2,206,959
Collateral Held/Security Lending Agreements	4,690,715	5,808,697
Current maturities of CWSRF loans	43,615,992	41,399,726
Total current assets	218,536,833	185,512,132
Loans receivable, net of current maturities	637,349,206	625,456,541
Total assets	855,886,039	810,968,673
Liabilities and Fund Equities:		
Current liabilities:		
Due to Federal Government	0	0
Accounts payable and accrued expenses	2,036,750	2,627,007
Due to other funds	152,143	32,842
Obligation Under Security Lending Agreement	4,690,715	5,808,697
Unearned Revenue	0	16,269
Construction costs payable	137,473	5,359
Total current liabilities	7,017,081	8,490,174
Net Position:		
Restricted	848,868,958	802,478,499
Total Net Position	\$855,886,039	\$810,968,673

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, 2014**

	2014	2013
Operating Revenues:		
Interest income on CWSRF loans	\$12,113,448	\$11,421,732
Operating Expenses:		
Salaries and benefits	948,652	850,947
Supplies	28,858	33,050
Travel	23,228	18,257
Indirect costs	307,062	301,482
Contracts	883	0
Equipment	128	1,287
Total operating expenses	1,308,811	1,205,023
Operating income (loss)	10,804,637	10,216,709
Nonoperating Revenue (Expenses)		
Transfer In	0	0
Interest on investments	215,382	323,281
Funds received from EPA	32,020,672	49,824,420
Funds received from State of Washington	5,950,069	7,750,000
Immaterial Adjustments to Prior Period	0	0
Loan Principal Forgiven	(2,600,300)	(5,370,992)
Total non-operating revenue	35,585,823	52,526,709
Increase in Net Position	46,390,460	62,743,418
Net Position, beginning of year 07/01/2012	802,478,499	739,735,081
Net Position, end of year 06/30/2013	\$848,868,958	\$802,478,499

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, 2014

	Actual 2014	Actual 2013
Cash Flows from Operating Activities:		
Receipts from customers	\$10,203,733	\$12,079,123
Payments to employees and suppliers	(1,078,206)	(1,251,788)
Forgivable Principal Loans Disbursements	(2,600,300)	(5,365,633)
Loans Disbursements	(56,379,680)	(70,778,473)
Repayments on loans	42,298,703	40,689,638
Net cash provided (used) by operating activities	(7,555,750)	(24,627,133)
Cash Flows from Non-capital Financing Activities:		
Funds received from EPA	32,020,672	49,770,341
Transfers from other State funds	6,171,885	10,905,376
Net cash provided (used) by non-capital financing activities	38,192,557	60,675,717
Cash Flows from Investing Activities:		
Receipts from interest on investments	205,849	304,739
Net cash provided (used) by investing activities	205,849	304,739
Net cash provided (used)	30,842,656	36,353,323
Cash and cash equivalents, beginning of year	136,096,750	99,743,427
Cash and cash equivalents, end of year	166,939,406	136,096,750
Excess of revenue over expenses (Net Income)	10,804,637	10,216,709
(Increase) decrease in interest on CWSRF loans	229,496	45,765
(Increase) decrease in current maturities of CWSRF loans	(2,139,211)	611,626
(Increase) decrease in loans receivable (net)	42,298,703	40,689,638
(Decrease) increase in payables	(56,149,075)	(70,825,238)
(Decrease) increase in forgivable principal loan payable	(2,600,300)	(5,365,633)
Net cash provided (used) by operating activities	(\$7,555,750)	(\$24,627,133)

The accompanying notes are an integral part of the financial statements