



# Annual Report

## Washington's Clean Water State Revolving Fund (CWSRF)

For State Fiscal Year 2016  
July 1, 2015 - June 30, 2016

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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/](http://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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**Annual Report**  
**Washington State Clean Water Revolving Fund**  
**(CWSRF)**

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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, 2016, Ecology's CWSRF program received a total \$702,042,460 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 \$1,650,998,309.76.

Ecology provides this annual report to the EPA and the public to report the activities undertaken to reach the goals and objectives in the State Fiscal Year 2016 (SFY16) 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 SFY16 (July 1, 2015, through June 30, 2016).

The SFY16 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 funding applications as part of Ecology's Water Quality Program (WQP) combined application process by November 7, 2014. Ecology staff screened, rated, and ranked all submissions based on the requirements in Chapter 173-98 WAC and in the *Funding Guidelines, State Fiscal Year 2016 Water Quality Financial Assistance* Publication #14-10-045. This process provided control over the amount and type of loans made and facilitated compliance with federal mandates. As an indication of current interest in the program, Ecology received 34 applications for over \$197M in loans for the SFY16 funding.

Ecology used the Federal Fiscal Year (FFY) 2015 appropriation of \$29,109,600 as the capitalization grant for the SFY16 IUP. Ecology set the SFY16 CWSRF program capacity at \$143M. In addition to the EPA capitalization grant, CWSRF program funds came from a required state match of 20 percent of the grant (\$4,851,600), principal repayments, and interest and investment earnings.

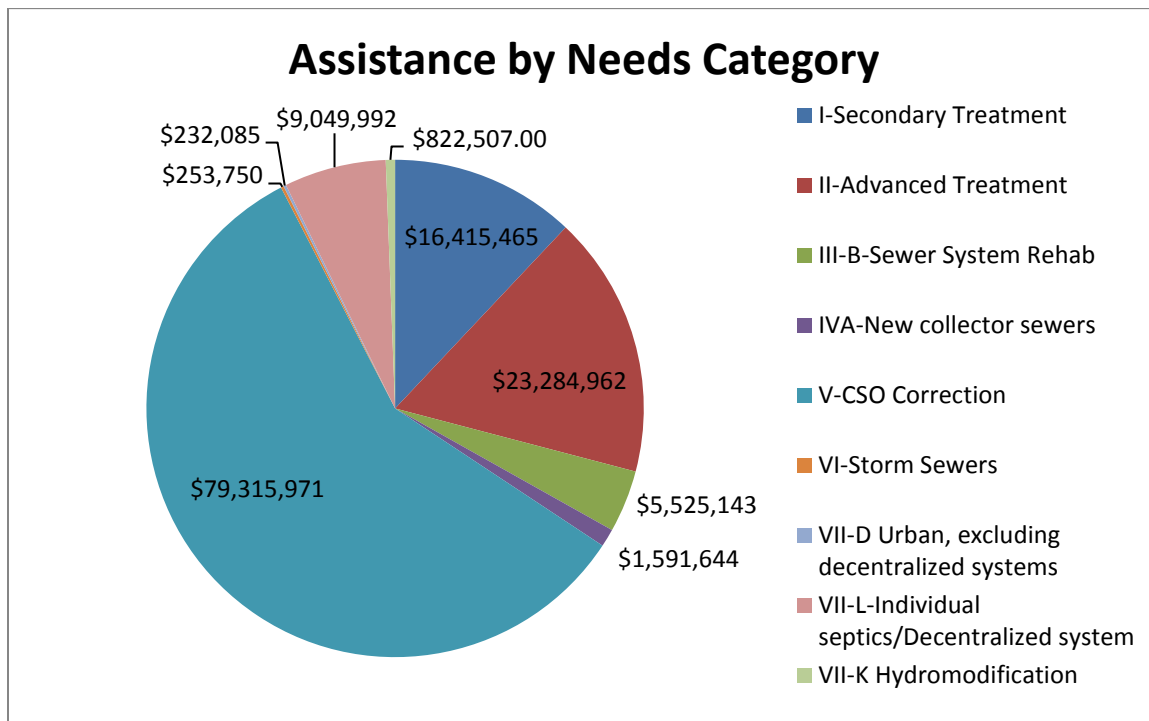
For SFY16, Ecology issued binding commitments for 20 projects totaling \$136,491,519. The weighted interest for these agreements is 2.26156 (56 percent of the market rate for tax-exempt municipal bonds). Of these binding commitments, \$1,497,545 was provided in the form of forgivable principal (loans that do not have to be repaid). The FFY15 capitalization grant (cap grant) set a maximum of \$7,277,400 for forgivable principal loans.

The FFY15 capitalization grant required Ecology to award 10 percent of the federal cap grant (\$2,425,800) 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.
- green infrastructure.

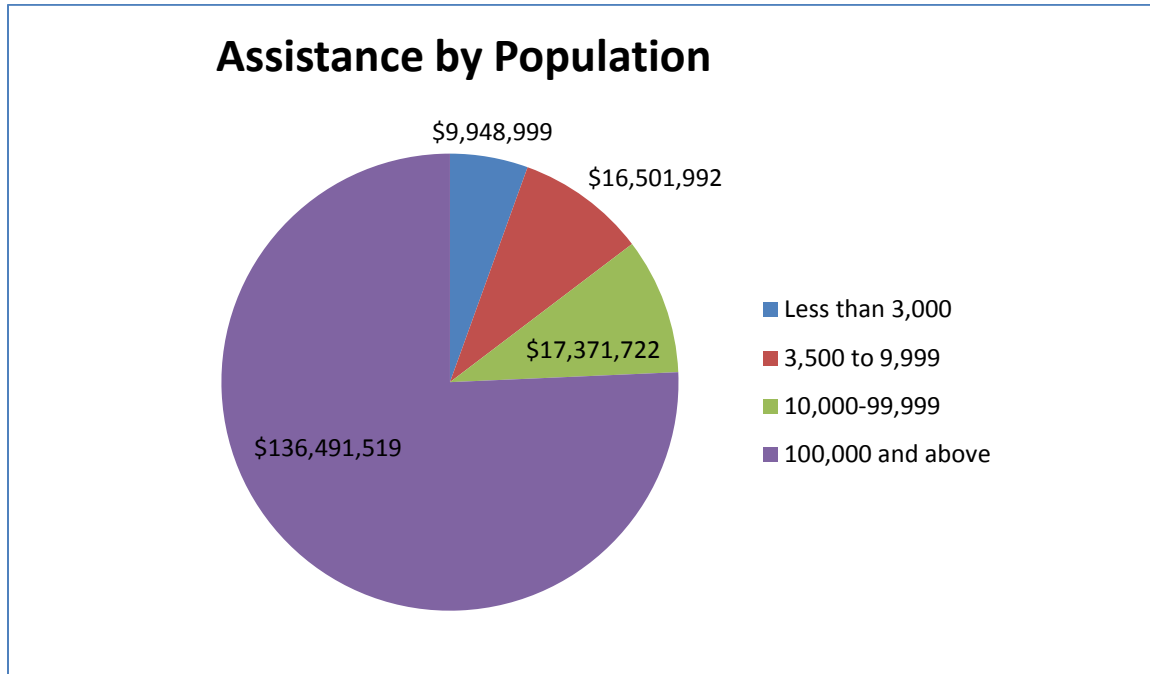
Ecology awarded \$10,191,494 or 42 percent of the cap grant to GPR projects or project elements, easily meeting this requirement.

The following graph shows assistance provided to each water quality needs category. A total of 93 percent of the funds in SFY16 are being used for Clean Water Act (CWA) Section 212 projects (wastewater projects) and 7 percent for CWA Section 319 (nonpoint activity projects). Another \$118M are categorized as CWA Section 320 projects that are within the National Estuary Program boundary.





The following graph shows the assistance provided across population categories. Ecology funded several large projects in King and Spokane Counties in SFY16. As a result, 68 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 addressing 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 applied an administrative charge that went into effect December 2013. 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 Sections 212, 319, and 320 of the CWA, including the State's Section 320 Estuary Plan (Puget Sound Action Agenda), and Washington's 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. Beginning with the State Fiscal Year 2016 (SFY16) funding cycle, Ecology integrated state funding provided for stormwater projects through the Stormwater Financial Assistance Program (SFAP) 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 federal fiscal year (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 FFY15 capitalization grant is administered in the SFY16 funding cycle.

## **What's in this report**

This report discusses how Ecology administered the CWSRF FFY15 capitalization grant, state match, and principal and interest repayments during SFY16. 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 FFY15 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY16.
- Presents a Management Discussion and Analysis section providing CWSRF financial statements.
- Includes several exhibits containing the unaudited financial statements of the CWSRF for SFY16.

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# 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 Water Quality Program (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 five 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) Communicate with 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 provide information on scoring consistency and objectivity before tabulating the final scores.
  - Ecology regional project managers work closely with the headquarters Financial Management Section, 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, tribes, special purpose districts and state, federal, and local governments for input on water quality priorities.
  - 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 requires 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.
  - 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).
    - Washington State Department of Commerce, Public Works Board.
- 3) 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 priority water quality improvement projects, including wastewater construction needs in small, hardship communities.

## 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 SFY16, Ecology organized and attended two meetings with the Financial Assistance Council (FAC) to review and discuss ongoing and emerging CWSRF program issues.
  - Ecology held two meetings of its internal CWSRF Management Oversight Committee. Among the issues discussed were: program status, fund management, cash flow acceleration, 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.
  - During SFY16 Ecology developed a Draft IUP for SFY17 offers. Ecology made the Draft IUP available to the public. Ecology held a public meeting in Tacoma to discuss the Draft IUP and sought additional public comment during a 30-day public comment period.
- 2) Conduct two application Evaluators meetings with a focus on consistency and objectivity in scoring.
  - Ecology annually trains staff assigned to evaluating applications. Ecology provides staff with tools and resources to help them understand the scoring criteria and what they

should be looking for. The training is used to improve consistency and accuracy in application scores.

### **Goal 3**

Provide the best possible funding packages for small, financially distressed communities.

#### ***Objectives and progress***

- 1) Set aside one-third of Centennial grant for wastewater facility construction projects in small communities where the project would result in sewer fees for residential ratepayers that are more than two percent of the median household income (MHI).
  - In SFY16 Ecology offered 67 percent of the Centennial funds to wastewater facility construction projects in hardship communities.
- 2) Set aside five percent of the CWSRF for facility preconstruction projects in small communities with MHIs less than the state MHI. Provide forgivable principal loans if the MHI is less than 80 percent of the state MHI.
  - In SFY16 Ecology offered approximately two percent of the CWSRF funds to preconstruction projects in small communities. Approximately 67 percent of the forgivable principal loan offered was for such projects.
- 3) Reduce the SFAP grant match requirements for stormwater projects in small communities with MHIs less than 80 percent of the state MHI.
  - In SFY16 Ecology offered a reduced SFAP grant match for stormwater projects in 12 small communities.
- 4) Reduce the CWSRF interest rates for local onsite sewage system repair and replacement programs if they target loans to financially distressed homeowners and small business owners.
  - The final CWSRF interest rate for local onsite sewage system repair and replacement programs is determined at the end of the project. Ecology will reduce the final interest rates based on the proportion of loans that the recipient provided to lower income homeowners and small commercial enterprises.

### **Goal 4**

Provide technical assistance to funding applicants and recipients.

- 1) Work with EPA and other federal agencies and other state agencies to ensure effective coordination associated with major federal and state requirements.
  - Ecology coordinates closely with other federal agencies and other state agencies to ensure it is 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.

- 2) Provide outreach at workshops, conferences, and meetings to disseminate information related to the funding programs and requirements.
  - In SFY16 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.
    - Growth Management Act.
- 3) Conduct four annual funding applicant workshops.
  - Ecology held applicant workshops for the FY17 cycle across the state on August 18, 19, 26, and 27, 2015.
- 4) Conduct two annual funding recipient workshops.
  - Ecology held a recipient workshop on July 7, 2015, via WebEx for its SFY16 recipients to learn grant and loan management requirements. The WebEx was recorded and made available on-line.
- 5) Maintain the Water Quality Grants and Loans webpage at [www.ecy.wa.gov/programs/wq/funding/funding.html](http://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](http://www.ecy.wa.gov/programs/wq/funding/funding.html)) to keep the public and stakeholders aware of funding and training opportunities and to provide them with related forms and publications.
- 6) Contract with the Rural Community Assistance Corporation (RCAC) to provide special technical assistance for small communities.
- 7) Provide directed technical assistance to small hardship communities with wastewater facility needs through an interagency agreement with Commerce to fund the Small Communities Initiative (SCI).
- 8) Assist with planning and participate in the annual Infrastructure Assistance Coordinating Council (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 enable sharing information and problem solving.



- The IACC hosted its annual conference October 20 - 22, 2015, where several Ecology staff presented information on the financial assistance programs. Ecology staff also participated in technical assistance (Tech Team) meetings to assist local communities in developing plans for specific infrastructure projects.

## 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 [http://www.bondbuyer.com/marketstatistics/search\\_bbi.html?details=true](http://www.bondbuyer.com/marketstatistics/search_bbi.html?details=true). The interest rates for standard CWSRF loans in SFY15 were:
    - 1.2 percent for a five-year loan (30 percent of tax-exempt municipal bonds).
    - 2.4 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.
- 2) Conduct financial capability assessments on CWSRF loan recipients prior to signing agreements.
  - 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. They 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 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.

- 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.
- 5) Coordinate with advisory groups, councils and other funding agencies and programs.
- Ecology met with FAC in July 21 and November 12, 2015 and March 17, 2016 to review and discuss ongoing and emerging CWSRF and combined financial assistance program issues.
  - Ecology conducted two internal CWSRF Management Oversight Committee meetings in November 2015 and May 2016 to review program status, fund management, and emerging issues.
  - Also, Ecology coordinated with the Community Development Block Grant (CDBG) on funding projects.
  - In addition Ecology CWSRF staff coordinated with DOH on funding for Large On-Site Septic (LOSS) systems.
  - Ecology coordinated with USDA Rural Development (RD) on funding for wastewater projects.
  - Ecology CWSRF staff 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.

# 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 Ecology must meet. Ecology is in compliance with all conditions of the Operating Agreement and Capitalization Grants. Several of the conditions are discussed elsewhere in this report; however, this section discusses certain key conditions, including several that are required to be in the annual report.

## Information on loan agreements signed and binding commitments

Ecology signed 20 CWSRF agreements totaling \$136,491,519 in SFY16. Table 1 lists the twelve projects totaling \$4.1M that declined funding offers. Table 2 provides information on agreements signed or binding commitments made in SFY16.

**Table 1: Declined Funding Offers**

<b>Application Number</b>	<b>Applicant</b>	<b>Amount</b>
WQC-2016-Harrin-00159	City of Harrington	59,000
WQC-2016-BellPW-00107	City of Bellingham	76,230
WQC-2016-BellPW-00109	City of Bellingham	106,625
WQC-2016-KiCoPW-00035	Kitsap County Public Works	43,355
WQC-2016-RedmPW-00258	City of Redmond Public Works Department	1,629,250
WQC-2016-TacoPW-00261	City of Tacoma Environmental Services Department	76,875
WQC-2016-Winloc-00149	City of Winlock	605,883
WQC-2016-Tonask-00174	City of Tonasket	55,000
WQC-2016-Rivers-00321	City of Riverside	596,000
WQC-2016-SacWSD-00369	Sacheen Lake Water and Sewer District	760,000
WQC-2016-Kahlot-00097	City of Kahlotus	24,000
WQC-2016-RepcPW-00244	City of Republic Public Works	77,400
<b>Total</b>	<b>12 projects</b>	<b>\$4,109,618.24</b>

**Table 2: CWSRF Agreements/Binding Commitments in SFY16**

Application Number (EAGL)	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Loan	CWSRF Forgivable Principal	Int Rate %	Loan Term	Binding Commitment Date
WQC-2016-LeavPW-00141	EL160569/EF160570	Leavenworth city of - Public Works	Leavenworth General Sewer Plan / Wastewater Facility Plan (GSP/FP)	II-Advanced Treatment	197,060	98,530	98,530	1.2	5	2/22/2016
WQC-2016-LibWSD-00091	EL160034/EF160033	Liberty Lake Sewer and Water District	Water Reclamation Facility Upgrades, Phase 2	II-Advanced Treatment	15,916,417	15,886,668	29,749	2.4	20	10/8/2015
WQC-2016-PoGalT-00098	EL160226	Port Gamble S'Klallam Indian Tribe	Port Gamble S'Klallam Tribe Membrane BioReactor WWTF (MBR) Construction	II-Advanced Treatment	7,171,485	7,171,485		2.4	20	11/18/2015
WQC-2016-Carbon-00147	EL160598/EF160599	Carbonado town of	Carbonado Sewer System Replacement Design	III-B Sewer System Rehabilitation	920,000	460,000	460,000	2.4	20	3/10/2016
WQC-2016-KiCoPW-00037	EL160619	Kitsap County - Public Works	Manchester Shoreline Sewer Facility Rehabilitation	III-B Sewer System Rehabilitation	3,870,843	3,870,843		2.4	20	2/4/2016
WQC-2016-KiCoPW-00038	EL160633	Kitsap County - Public Works	Yukon Harbor Collection System Local Improvement District	III-B Sewer System Rehabilitation	432,000	432,000		2.4	20	4/20/2016
WQC-2016-Wapato-00093	EL160609/EF160610	Wapato city of	North Wapato Sewage Lift Station Replacement	III-B Sewer System Rehabilitation	302,300	275,800	26,500	2.4	20	5/5/2016
WQC-2016-Mattaw-00018	EL160638/EF160639	Mattawa city of	Wastewater Facility Plan	I-Secondary Treatment	120,000	60,000	60,000	2.4	20	3/10/2016
WQC-2016-OakHar-00240	EL160602/EF160603	Oak Harbor city of	City of Oak Harbor Wastewater Treatment Plant	I-Secondary Treatment	16,295,465	15,832,311	463,154	1.9	20	3/7/2016

Application Number (EAGL)	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Loan	CWSRF Forgivable Principal	Int Rate %	Loan Term	Binding Commitment Date
WQC-2016-ChehPW-00013	EL160234/EF160237	Chehalis city of - Public Works Department	Coal Creek Sewer Extension	IV-A New Collector Sewers	30,000	15,000	15,000	2.4	20	2/10/2016
WQC-2016-SkokIT*-00010	EL160268	Skokomish Indian Tribe - Community Development Department	Core Reservation Force Main Extension	IV-A New Collector Sewers	1,561,644	1,561,644		2.4	20	2/4/2016
WQC-2016-KCoNRP-00020	EL160606	King County - Natural Resources and Parks Department	Murray CSO (Construction Phase)	V-CSO Correction	30,765,387	30,765,387		2.4	20	6/7/2016
WQC-2016-KCoNRP-00089	EL160572	King County - Natural Resources and Parks Department	North Beach CSO (Construction Phase)	V-CSO Correction	9,136,058	9,136,058		2.4	20	6/10/2016
WQC-2016-SeaPUD-00192	EL160631	Seattle city of - Public Utilities Department	Henderson North Combined Sewer Overflow Reduction– Basins NPDES 44 and 45	V-CSO Correction	39,414,526	39,414,526		2.4	20	6/6/2016
WQC-2016-Fife-00054	EL160542	Fife city of	SR99 Stormwater Retrofit and Pedestrian Improvements	VII-D Urban, excluding decentralized systems	133,275	133,275		2.4	20	4/20/2016
WQC-2016-Lind-00055	EL160749	Lind town of	Protecting the Water Quality of Lind Coulee with LID Stormwater Management	VII-D Urban, excluding decentralized systems	98,810	98,810		2.4	20	6/7/2016
WQC-2016-BellPW-00130	EL160594/EF160612	Bellingham city of - Public Works Department	Squalicum Creek Rerout Water Quality and Biotic Improvements Phase 3	VII-K Hydromodification	822,507	616,880	205,627	2.4	20	3/10/2016

Application Number (EAGL)	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Loan	CWSRF Forgivable Principal	Int Rate %	Loan Term	Binding Commitment Date
WQC-2016-Craft-00376/ WQC-2016-TPCoHD-00100 (Original)	EL170004/ EF170006	Craft 3	On-site Sewage System Regional Loan Program	VII-L Individual/Decentralized Systems	8,299,992	8,161,007	138,985	1.2	5	6/14/16 (Binding Commitment) 7/21/2016 (Signature)
WQC-2016-SkCoPD-00181	EL160642	Skagit County - Planning and Development Services	Skagit County Non-point Septic Repair Fund	VII-L Individual/Decentralized Systems	750,000	750,000		2.4	20	4/27/2016
WQC-2016-PoOrPW-00005	EL160216	Port Orchard city of - Public Works Department	Regional Decant Facility Retrofit	VI-Storm Sewers	253,750	253,750		2.4	20	11/18/2015
<b>Total Binding Commitments</b>					<b>136,491,519</b>	<b>134,993,974</b>	<b>1,497,545</b>			

## Binding commitments

Ecology is required to make binding commitments for 120 percent of the federal grant payment within one year following receipt. Table 3 shows that Ecology easily met this requirement for SFY16.

**Table 3: Binding Commitments with Respect to Federal Grant Payments in SFY16**

Capitalization Grant Received During SFY16	\$29,109,600
Binding Commitments Required Within One Year of Receipt	\$34,931,520
Binding Commitments at the End of SFY16	\$136,491,519
<b>Percent of Capitalization Grant under Binding Commitment at the End of SFY16</b>	<b>469%</b>

## 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 4 shows the cumulative funds received, cumulative principal and interest collected, and the cumulative administration expenditures through SFY16 in addition to the cumulative loan obligations through SFY16. The table shows that Ecology has committed more than 109.17 percent of the cumulative funds available through SFY16.

**Table 4: Timely and Expeditious Use of Federal Funds**

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY15)	609,632,560	68,151,900	677,784,460
State Match (cumulative through SFY15)	121,932,330		121,932,330
Principal and Interest Collected (cumulative through SFY15)			712,932,413
State Treasurer's Office Interest (cumulative through SFY15/cash basis)			37,219,487
Administration 4% (cumulative through SFY15)	(23,046,351)	(2,726,076)	(25,772,427)
Total Funds (cumulative through SFY15)	708,513,836	65,425,824	1,524,096,263
Loan Obligations (cumulative through SFY16)	1,598,330,535	65,449,649	1,663,780,184
<b>Loans as % of Funds Available</b>			<b>109.17%</b>

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

## **State match**

The 2015-17 Biennial budget directly appropriated \$12 million in spending authority for CWSRF State match to come from the State Building Construction Account. In previous years, legislation authorized the match as a Treasurer's cash transfer into account 727. Ecology requested a technical fix that was applied in the Supplemental legislative budget. In SFY15, the State Legislature passed a Supplemental Budget Bill that removed the spending appropriation and approved the transfer of cash from the State Taxable Building Construction Account to the CWSRF account. On June 30, 2016, the State Treasurer deposited \$12 million into the CWSRF account. These funds are sufficient to meet the match requirement for SFY16 and SFY17.



## Green Project Reserve

The FFY15 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 FFY15 grant totaled \$24,258,000 which set the GPR requirement at \$2,425,800.

In SFY16 Ecology made specific offers of \$10.1 M to the five GPR-eligible projects. During agreement negotiations, Ecology finalized GPR amounts based on the project scope of work, resulting in a slightly lower total for GPR. Table 5 shows the five projects that received \$10,191,494 in GPR funds for SFY16. These funds equal 42 percent of the cap grant, meeting the 10 percent requirement.

**Table 5: Green Project Reserve (GPR) Offers in SFY16**

Agreement Number	Loan Number	Recipient Name	Project Population	Project Title	GPR Category	Standard Loan Amount	Forgivable Principal Loan Amount
WQC-2016-BellPW-00130	EL160594/EF160612	Bellingham city of - Public Works Department	100,000	Squalicum Creek Reroute Water Quality and Biotic Improvements Phase 3	Green Infrastructure-1.2-7 Re-routing of degraded stream channel to address temperature TMDL.	\$ 616,880	\$ 205,627
WQC-2016-LibWSD-00091	EL160034/EF160033	Liberty Lake Sewer and Water District	9,200	Water Reclamation Facility Upgrades, Phase 2	Energy Efficiency-3.2-2 Project will achieve 20% energy savings/ Water Efficiency-2.2-6 Water recycling will replace potable sources with non-potable	\$ 89,246	\$ 29,749
WQC-2016-OakHar-00240	EL160602/EF160603	Oak Harbor city of	22,300	City of Oak Harbor Wastewater Treatment Plant	Water Efficiency-2.2-6 Water recycling will replace potable	\$ 150,000	\$ 50,000

Agreement Number	Loan Number	Recipient Name	Project Population	Project Title	GPR Category	Standard Loan Amount	Forgivable Principal Loan Amount
					sources with non-potable		
WQC-2016-SkCoPD-00181	EL160642	Skagit County - Planning and Development Services	118,600	Skagit County Non-point Septic Repair Fund	Environmentally Innovative-4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing OSS.	\$ 750,000	
WQC-2016-Craft-00376/ WQC-2016-TPCoHD-00100	EL170004/ EF170006	Craft 3	1,077,287	On-site Sewage System Regional Loan Program	Environmentally Innovative-4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing OSS.	\$ 8,161,007	\$ 138,985
<b>Total</b>					<b>\$10,191,494</b>	<b>\$ 9,767,133</b>	<b>\$ 424,361</b>

## Additional subsidization and sustainability of funded projects

The FFY15 grant from EPA specifies that Ecology must use a minimum of \$0 and up to a maximum of \$7,277,400 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 preconstruction projects that demonstrate financial hardship and to GPR-eligible projects.

In SFY16 Ecology made offers of forgivable principal loans to 15 applicants totaling \$1,928,918. Seven recipients declined the offer resulting in a total of \$1,291,918 awarded to 8 recipients. Table 6 summarizes the recipients that received forgivable principal loans for their projects.

**Table 6: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY16**

Agreement Number	Loan Number	Recipient	Project Title	Forgivable Principal Loan Amount	ASR Sustainability Criterion	Could the recipient afforded the project without additional subsidization?
WQC-2016-Carbon-00147	EF160599	Carbonado, Town of	Carbonado Sewer System Replacement Design	460,000	Sustainable Planning or Design	No
WQC-2016-ChehPW-00013	EF160237	Chehalis, city of - Public Works Department	Coal Creek Sewer Extension	15,000	Sustainable Planning or Design	No
WQC-2016-Craft-00376/ WQC-2016-TPCoHD-00100	EF170006	Craft 3	On-site Sewage System Regional Loan Program	138,985	Green Project Reserve	Yes
WQC-2016-LeavPW-00141	EF160570	Leavenworth, city of - Public Works	Leavenworth General Sewer Plan / Wastewater Facility Plan (GSP/FP)	98,530	Sustainable Planning or Design	No
WQC-2016-LibWSD-00091	EF160033	Liberty Lake Sewer and Water District	Water Reclamation Facility Upgrades, Phase 2	29,749	Green Project Reserve	Yes

<b>Agreement Number</b>	<b>Loan Number</b>	<b>Recipient</b>	<b>Project Title</b>	<b>Forgivable Principal Loan Amount</b>	<b>ASR Sustainability Criterion</b>	<b>Could the recipient afforded the project without additional subsidization?</b>
WQC-2016-Mattaw-00018	EF160639	Mattawa, city of	Wastewater Facility Plan	60,000	Sustainable Planning or Design	No
WQC-2016-OakHar-00240	EF160603	Oak Harbor, city of	City of Oak Harbor Wastewater Treatment Plant	463,154	Financial Hardship	No
WQC-2016-Wapato-00093	EF160610	Wapato, city of	North Wapato Sewage Lift Station Replacement	26,500	Sustainable Planning or Design	No
<b>Total</b>				<b>\$ 1,291,918.00</b>		

## Assistance to hardship communities

Ecology is committed to providing financial assistance to hardship communities. Table 7 outlines the assistance provided in the form of reduced interest rates, forgivable principal loans, and Centennial grants to make these projects more affordable for four communities.

**Table 7: Hardship Assistance Provided in SFY16**

Agreement Number	Loan Number	Recipient	Project Title	Hardship Level	Standard Loan	Interest Rate	Forgivable Principal Loan	Centennial Grant
WQC-2016-ChehPW-00013	EL160234/EF160237	City of Chehalis Public Works Department	Coal Creek Sewer Extension	Severe	\$ 15,000	2.4%	\$ 15,000	\$ 295,000
WQC-2016-KiCoPW-00038	EL160633	Kitsap County Public Works	Yukon Harbor Collection System Local Improvement District	Severe	\$ 432,000	2.4%		\$4,563,348
WQC-2016-OakHar-00240	EL160602/EF160603	City of Oak Harbor	City of Oak Harbor Wastewater Treatment Plant	Moderate	\$ 15,832,311	1.9%	\$ 463,154	\$4,586,846
WQC-2016-SkokIT*-00010	EL160268	Skokomish Indian Tribe - Community Development Department	Core Reservation Force Main Extension	Severe	\$ 1,561,644	2.4%		\$ 438,356
					<b>\$ 17,840,955</b>		<b>\$ 478,154</b>	<b>\$9,883,550</b>

## **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 SFY16, the SERP Coordinator finalized and published the Environmental Review guidance document and been working closely with EPA to develop a SERP document for EPA approval.

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 2 is a summary of each loan executed. Table 8 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 SFY16.

**Table 8: 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	43.7	10	43.7		10	0.2	13	10
Records with Benefits Data	43.7	10	43.7	13.7	10	0.2	13	10
Impacting Human Health	43.5	9	43.5	13.7	9	0.2	13	9
	100%	100%	100%		90%	3,448*		90%
With Impaired Waterbody			33.2	12.0	4	0.1	6	4
			76%		42%	23,551*		40%
With Water Body Meeting Standards			0.5	0.2	3			
To Improve Water Quality			42.5	13.3	7			
To Maintain Water Quality			1.2	0.4	3			
To Achieve Compliance			17.9	5.9	4			
To Maintain Compliance			17.5	6.8	5			

## **CWSRF program changes and development**

### ***CWSRF Administrative Charge***

On May 1, 2013, the Governor signed SHB 1141, which amended RCW 90.50A.090 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, 2016, the total administrative charge deposited into the Administrative Account (564) totaled \$1,275,086. Starting in SFY 2018, Ecology anticipates there will be sufficient cash balance in the Administrative Charge Account to support the majority of Ecology's current CWSRF administrative costs. Ecology will evaluate the charge each year and determine what the appropriate rate should be to meet our administrative costs without accumulating an excess balance. If the account gets too large, Ecology can transfer funds into Account (727) to fund projects.

### ***Drawing funds from the Capitalization Grant***

Ecology used 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 method 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. Starting in SFY12, Ecology began coding most agreements with federal capitalization dollars. Ecology was making some headway in drawing down open grants.

For SFY 16, the agency received the appropriate matching funds in the agency's budget. Having the match readily available allows Ecology to expedite spending of the capitalization grants. During SFY 16, Ecology was able to expend and close the FFY13, FFY14, and most of the FFY15 capitalization grants.

As of June 30, 2016, we had a balance of \$6,823,496 in the FFY15 cap grant. All other cap grants have been spent.

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

During SFY16, Ecology accepted applications for the SFY17 cycle using the web based grant and loan management system, Ecology Administration of Grants and Loans (EAGL). Ecology staff screened and evaluated those applications within the EAGL system. For SFY16 funded projects, agreements became active in EAGL after negotiations. Recipients submit Payment Requests/Progress Reports (PRPRs) along with backup documentation via EAGL. Ecology Financial and Project Managers review and approve payments within the system. Once Ecology staff approves a PRPR, EAGL notifies Ecology's Fiscal Office, staff activates payment, and the recipient gets paid. No more paper! There have been some bugs along the way, but Ecology has worked them out and the system is working smoothly.



## **Fund Management and Health of the Account**

The CWSRF account balance had grown over the years but due to acceleration of the account and cash flow monitoring, we are starting to see the cash balance reducing. By the end of SFY16, the cash balance dropped to \$189M. This is over a 13% drop from where it was at the end of SFY15 (\$218M). Historically, quarterly revenue into the account from repayments and federal grants has outpaced quarterly expenditures. Ecology has developed a CWSRF cash flow model that projects the expected availability of funds from principal and interest income compared to loan disbursements on projects 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. Ecology’s goal is to get the cash balance down to approximately \$40M and maintain that balance over time.

## **Equivalency Projects**

“Equivalency requirements” refer to specific requirements EPA applies to Ecology’s funding for the CWSRF. “Equivalency” means that Ecology is only required to report and/or track compliance with the requirements by CWSRF loan recipients up to an amount equivalent to the amount for the Capitalization Grant Ecology receives from EPA.

Due to amendments to the Clean Water Act (CWA) in 2014, the equivalency now applies to the following:

- Architectural and engineering (A/E) services procurement.
- Disadvantaged Business Enterprises (DBE)
- Federal Funding Accountability and Transparency Act (FFATA).
- Most of the federal cross cutters.

In prior years, Ecology met the equivalency requirements by applying them to certain types of projects or applicants. EPA issued a memo stating that the same group of projects must comply with all the equivalency requirements. Ecology revised its approach to meeting equivalency and decided to apply it to wastewater facility Step 3 and 4 projects for recipients with a population of 25,000 or greater. Table 9 lists the SFY16 projects who met these requirements.

**Table 9: SFY16 Equivalency Projects**

Agreement	Recipient	CWSRF Loan
WQC-2016-SeaPUD-000192	Seattle city of-Public Utilities Department	\$42,187,964
WQC-2016-KiCoPW-00037	Kitsap County-Public Works	\$3,818,001
WQC-2016-KCoNRP-00020	King County-Natural Resources and Parks Department	\$30,876,256
WQC-2016-KCoNRP-00089	King County-Natural Resources and Parks Department	\$9,136,058

Agreement	Recipient	CWSRF Loan
WQC-2016-KiCoPW-00038	Kitsap County-Public Works	\$432,000
Total		<b>86,450,279</b>

# Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) introduces the annual financial statements of the State of Washington Department of Ecology, Clean Water State Revolving Fund Loan Program (CWSRF) for the years ended June 30, 2015 and 2014. It is a required supplement to these financial statements. It describes and analyzes the financial position of the CWSRF program, providing an overview of the CWSRF's activities. The state of Washington Department of Ecology (Ecology) 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 United States of America Environmental Protection Agency (EPA). The federal fiscal year (FFY) 2015 grant award was \$29,109,600. Ecology matches 20 percent of the grant award with state funds, or \$4,851,600. 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 the state fiscal year (SFY) 2016 was \$143M as published in Ecology's July, 2015 Intended Use Plan. CWSRF loan interest rates are between zero and 2.4 percent.

## Net position of the CWSRF

The CWSRF program has no capital assets and no related debt. The total amount of reported net position as of June 30, 2016, is \$967,218,420.

## Using this Annual Financial Report

The CWSRF financial statements are included in this annual financial report. The basic financial statements of the CWSRF are intended to present the financial position, changes in financial position, and cash flows of only the CWSRF and associated account. They do not present the financial position of the Department of Ecology or the state of Washington (State) as of June 30, 2015 and 2016 and the change in their financial positions and their cash flows for those years.

## Overview of Financial Statements

This discussion and analysis introduces the CWSRF financial statements and accompanying notes to financial statements. This report also contains required supplementary information and other information.

The CWSRF financial statements are presented as a special purpose government engaged only in providing loans to other governmental bodies. The statements provide both short-term and long-term information about the CWSRF's financial position. This information assists the reader in assessing the CWSRF's economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting. The financial statements include the following three statements:

- The *Statements of Net Position* present information on all of the CWSRF's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of the CWSRF is improving or worsening.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present how the CWSRF's net position changed during the past year. All changes in the net position are reported when the event that causes the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.
- The *Statements of Cash Flows* report the CWSRF's cash flows from operating activities, noncapital financing activities, and investing activities.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes can be found immediately following the financial statements.

**Table 1**

<b>Net Position</b>	<b>June 30,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$189,943,767	\$ 233,337,096	\$ 166,939,406
Loans receivable	775,487,630	661,520,717	680,892,634
All other assets	8,671,883	9,982,601	8,374,038
<b>Total assets</b>	<b>974,103,280</b>	<b>904,840,414</b>	<b>856,206,078</b>
<b>LIABILITIES</b>			
Current liabilities	6,885,277	16,614,635	7,017,081
<b>Total liabilities</b>	<b>6,885,277</b>	<b>16,614,635</b>	<b>7,017,081</b>
<b>NET POSITION</b>			
Unrestricted	967,218,003	888,225,779	849,188,997
<b>Total net position</b>	<b>967,103,280</b>	<b>\$888,225,779</b>	<b>\$849,188,997</b>

## Changes in net position

During SFY16 the CWSRF cash increased by \$78,945,762, as seen on the Statement of Net Position. The increase in cash is a result of an effort to use funds from the EPA before using State revolving funds. The State Treasurer's office credited \$1,343,235 in interest to the CWSRF account. The EPA capitalization grant funds provided \$62,921,340, and the state of Washington provided \$ 6,000,000 in matching funds. While cash increased from SFY15 to SFY16, Ecology would like to see cash decrease as it awards more loans using cash flow acceleration for priority water quality projects throughout the State in 2016.

The change in loans receivable is caused by disbursing new loans in an amount less than receipts on existing loans. Ecology disbursed \$74,042,051 in loans during the year. Ecology received \$12,287,621 in principal payments from borrowers and applied \$2,138,737 in principal forgiveness during the year. Ecology paid \$1,467,697 in administrative expenses to employees, vendors, and for indirect costs.

During fiscal year 2015, the CWSRF cash increased by \$39,036,781. Borrowers made \$12,226,612 in total loan repayments, including principal and interest.. Ecology disbursed \$20,551,633 in loans during the year. The State Treasurer’s Office credited \$791,376 in interest to the CWSRF account. Ecology paid \$1,260,708 in administrative expenses to employees, vendors, and for indirect costs. EPA capitalization grant funds provided \$18,176,224 in cash, and the State of Washington provided \$15,500,000 in matching funds.

**Table 2**

**Changes in Net Position**

	<b>Year Ended June 30,</b>		
	<b>2016</b>	<b>2015</b>	
<b>Revenues</b>			
Program revenues:			
Loan interest income	12,287,200	12,226,612	\$ 12,506,051
General revenues:			
Investment income	1,343,235	791,376	215,382
Other Income	46,881		
<b>Total revenues</b>	<b>13,677,316</b>	<b>13,017,988</b>	<b>12,721,433</b>
<b>Expenses</b>			
Program expenses:			
Administrative expenses	1,467,697	1,260,708	1,308,812
Principal forgiveness	2,138,737	402,625	2,600,300
<b>Total expenses</b>	<b>3,606,434</b>	<b>1,663,333</b>	<b>3,909,112</b>
<b>Increase in net position before</b>			
<b>contributions</b>	<b>10,070,882</b>	<b>11,354,655</b>	<b>8,812,321</b>
<b>Capital contributions:</b>			
EPA capitalization grant	62,921,340	18,176,224	31,948,108
State and other contributions	6,000,000	9,505,903	5,950,069
Subtotal capital contributions	<b>68,921,340</b>	<b>27,682,127</b>	<b>37,898,177</b>
<b>Change in net position</b>	<b>78,992,222</b>	<b>39,036,782</b>	<b>46,710,498</b>
<b>Net position - beginning of year</b>	<b>888,225,779</b>	<b>849,188,997</b>	<b>802,478,499</b>
<b>Net position - end of year</b>	<b>\$967,218,001</b>	<b>\$ 888,225,779</b>	<b>\$ 849,188,997</b>

## **Income for fiscal year 2016**

Net operating income of the CWSRF for SFY16 was \$10,819,923. Operating income or loss includes those amounts earned by the ordinary activities of the program, minus 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 increases the net position in the program. Other increases to net position include amounts received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In 2016, the CWSRF earned \$62,921,340 in federal funds and \$6,000,000 in state matching funds.

## **Income for fiscal year 2015**

Net operating income of the CWSRF for SFY15 was \$10,965,904. Operating income or loss includes those amounts earned by the ordinary activities of the program, minus 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 increases the net position in the program. Other increases to net position include amounts received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In SFY15 the CWSRF earned \$18,176,224 in federal funds and \$15,500,000 in state matching funds.

## **State matching funds**

For SFYs 2015 and 2016, state matching funds came from the State Taxable Building Construction Account. Revenue from that account comes from a combination of bond proceeds and other miscellaneous revenue. CWSRF received a cash match of \$9.5 million in SFY15. A portion of the amount was used in SFY15. The remainder will be used as matching funds in SFY16.

## **Economic Conditions and Outlook**

Ecology continues to improve Washington State's CWSRF program through strategic planning and funding program updates to address changing economic conditions. Annually, Ecology addresses changes and updates of policies, procedures, and guidelines to ensure financial health and sustainability of the fund. They also periodically review and update program statutes and rules to address emerging water quality financial assistance needs. SFY16 demand for funds continued to be higher than funds available. This demand indicates that local governments are moving forward with their infrastructure projects and points to a general improvement in the local government economic outlook after the economic downturn.

For SFY16 (FFY15) the federal capitalization grant was approximately \$29 million, which was higher than the previous year. The outlook for ongoing federal funding generally points to reductions in future capitalization grants to the SRF programs. Although capitalization grants are an important source of revenue, the CWSRF has a sound level of repayment and interest income that would sustain the revolving loan fund at a lower level. Ecology uses a cash flow model to project and predict available fund resources each funding year, with a 20-year projected outlook. This model has allowed Ecology to award additional loan funding through available cash resources and includes ongoing repayments, program income, and disbursements. Ecology accounts for possible reductions in the capitalization grant through the model.

Ecology has a well-structured loan agreement with conditions that limit risk of non-payment. To date, there have been no issues related to non-payment of a CWSRF loan in Washington State.

## **Conclusion**

The intent of this MD&A is to provide a summary of the financial condition of the CWSRF loan program. The MD&A should be read in conjunction with the remainder of this report. The financial statements and footnotes contained in this annual report provide a detailed analysis of the program's financial position and results of operations.

## **Requests for Information**

The financial report is designed to provide interested parties with a general overview of the CWSRF program finances. Questions concerning the information provided in this report or requests for additional information should be addressed to Mr. Jeff Nejedly, Financial Management Section Manager, Dept. of Ecology - Water Quality Program, 360-407-6572 or [jeffrey.nejedly@ecy.wa.gov](mailto:jeffrey.nejedly@ecy.wa.gov).



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 (EPA), 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. 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 \$702,042,460 in capitalization grants from 1989 through June 30, 2016. The State match share for that awarded amount is \$125,415,365.

The Account is administered by 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.

## 1. Summary of Significant Accounting Policies (Continued)

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.

### *Basis of Accounting*

The Account follows the Governmental Accounting Standards Board (GASB) accounting pronouncements which provide guidance for determining which governmental activities, organizations, and functions should be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of a governmental organization's elected governing body as the basic criterion for including a possible component governmental organization in a primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

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 enterprise fund is used since the Account's powers are related to those operated in a manner similar to a for-profit business where an increase in net position is an appropriate determination of accountability. The Account is included in the state of Washington's basic 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 basic financial statements.

### **Implementation of New Standards**

Effective July 1, 2012, the Account implemented GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Account has already been following these standards.

## 1. Summary of Significant Accounting Policies (Continued)

### *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*

During the June 30, 2012 fiscal year, 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. Ecology awarded \$1,497,545 and \$1,787,867 in forgivable principal loans during the years ended June 30, 2016 and 2015, respectively, which is recognized upon loan closure when final amounts of the project are determined.

## 1. Summary of Significant Accounting Policies (Continued)

### *Operating Revenues and Expenses*

The Account distinguishes between operating revenues and expenses and nonoperating items in the Statements of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from carrying out the purpose of the Account providing low interest loans to communities and providing assistance for prevention programs and administration. Operating revenues consist of loan interest repayments from borrowers. Operating expenses include direct salary costs, benefits expenses, and allocated indirect costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses or capital contributions.

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.

When both restricted and unrestricted resources are available for use, it is the Account's policy to use restricted resources first, then unrestricted resources as they are needed.

### *Use of Estimates in Preparing Financial Statements*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements. This also includes disclosures of contingent assets and liabilities and the reported amounts of revenues, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

## 2. Deposits and Investments

All monies of the Account are deposited with the State Treasurer’s Office (OST) as part of the State’s Treasury/Trust Portfolio, and are considered cash equivalents. 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, 2016, total Treasurer’s invested balance of the Treasury/Trust Fund Portfolio was \$6.3 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.

	<u>Carrying Amount</u>	<u>Market Value</u>
Treasury/Trust Portfolio June 30, 2016	<u>\$189,943,767</u>	<u>\$189,943,767</u>
Treasury/Trust Portfolio June 30, 2015	<u>\$218,050,822</u>	<u>\$218,050,822</u>

In accordance with the State investment policies, the State Treasurer participates in securities lending transactions. The securities lending balances relating to investment securities, owned by CWSRF and deposited into the OST, are shown on the following table:

	<u>2016</u>	<u>2015</u>
CWSRF Securities on loan:		
Fair Value	<u>5,973,202</u>	<u>\$ 5,970,556</u>
Cash Collateral held by CWSRF:		
Fair Value	<u>6,113,251</u>	<u>\$ 6,116,710</u>
Reported Value	<u>6,113,251</u>	<u>\$ 4,690,715</u>
OST Securities on loan:		
Fair Value	<u>199,313,245</u>	<u>\$ 144,789,671</u>
Cash Collateral held by OST:		
Fair Value	<u>203,986,375</u>	<u>\$ 148,334,000</u>
Reported Value	<u>203,986,375</u>	<u>\$ 148,334,000</u>

## 2. Deposits and Investments (Continued)

Revised Code of Washington (RCW) 43.84.080, contract dated September 1, 2011 between the OST and Citibank, runs for four years with the possibility of a two-year extension. There were no violations of legal or contractual provisions.

The OST lending agent lends US Government securities and US Agency securities and receives collateral, which can be in the form of cash or other securities. The collateral, which must be valued at 102 percent of the fair value of the loaned securities, is priced daily and, if necessary, action is taken to maintain the collateralization level at 102 percent. The cash is invested by the lending agent in repurchase agreements or money market instruments, in accordance with investment guidelines. The securities held as collateral, and the securities underlying the cash collateral are held by the custodian. The contract with the lending agent requires them to indemnify the OST if the borrowers fail to return the securities (and if collateral is inadequate to replace the securities lent) or if the borrower fails to pay the OST for income distribution by the securities' issuers while the securities are on loan. The OST cannot pledge or sell collateral securities received unless the borrower defaults.

As of June 30, 2016, investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$189,943,767 book and \$189,943,767 fair value.

On June 30, 2016 and 2015, the average life of both the loans and the investment of cash received as collateral was one day.

The investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2016, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

There were no losses resulting from a default of a borrower or lending agent during the year.

### 3. Loans Receivable

The Account makes loans to qualified entities for projects that meet the eligibility requirements of The Act. Loans are financed by capitalization grants, state matches, and revolving funds. Interest rates for SFY 2016 were established at 1.2 percent for up to a five year-term and 2.4 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.

As of June 30, 2016 and 2015, the Account had total binding commitments of \$136,491,519 and \$148,895,238, respectively, which meets the program requirement of committing 120% of the federal grant payment within one year following receipt. Federal funds awarded to date including ARRA Federal funds is \$702,042,460 and \$677,784,460 as of June 30, 2016 and 2015, respectively. Loan obligations as of June 30, 2016, which include state matching requirements and principal and interest collected from repayment, were \$1,663,780,184.

#### *Loans by Category*

Loans receivable by project status at June 30, 2016 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Receivable Balances</u>
Completed projects	\$ 972,663,667	\$ 383,392,968	\$ 589,270,699
Projects in progress	340,282,802	153,993,307	<u>186,289,495</u>
Total	1,312,946,469	537,386,275	775,560,194
Payment requests in progress (Received as of June 30, 2016, but not yet paid)			-
Less amount due in one year			<u>(47,582,734)</u>
Loans receivable, June 30, 2016 (Net of current maturities)			<u><u>\$ 727,927,460</u></u>

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EXHIBIT 1: Notes to the Financial Statements for FY16**

**3. Loans Receivable (Continued)**

Loans receivable by project status at June 30, 2015 are as follows:

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Receivable Balances</u>
Completed projects	\$ 969,029,768	\$ -	\$ 625,187,193
Projects in progress	321,778,361	285,444,739	<u>36,333,622</u>
Total			661,520,717
Payment requests in progress (Received as of June 30, 2015, but not yet paid)			-
Less amount due in one year			<u>(47,689,616)</u>
Loans receivable, June 30, 2015 (Net of current maturities)			<u><u>\$ 613,831,100</u></u>

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>Interest</u>	<u>Principal</u>	<u>Total</u>
2016	\$ 11,862,866	\$ 48,186,985	\$ 60,049,815
2017	10,985,886	48,223,317	59,209,203
2018	10,098,169	48,731,708	58,829,877
2019	9,204,327	48,731,708	57,936,035
2020	8,331,115	47,493,940	55,825,055
2021-2025	30,222,417	208,268,602	193,091,018
2026-2030	13,357,794	132,834,505	146,201,299
2031-2035	841	63,423	64,264
2036-2040	-	-	-
2041-2045	-	-	-
Total	<u><u>\$ 94,063,415</u></u>	<u><u>582,534,188</u></u>	<u><u>\$ 631,206,567</u></u>
Loans not yet in repayment			
Total loans receivable		<u><u>\$ 582,534,188</u></u>	



### 3. Loans Receivable (Continued)

#### *Loans to Major Local Entities*

As of June 30, 2016, the Account made loans to the following major local entities. The aggregate outstanding balance for each of these entities exceeds 2 percent of total loans receivable. The combined outstanding balances of these loans at June 30, 2016 and 2015 represent approximately 37.5 and 43.2 percent of the total loans receivable and are as follows:

(Figures are in Thousands)

<u>Borrower</u>	2016		2015
	Authorized Loan Amount	Outstanding Loan Balance	Outstanding Loan Balance
City of Tacoma	\$ 75,178	\$ 49,737	\$ 53,820
King County Department of Natural Resources	120,503	80,376	127,261
Lake Stevens Sewer District	43,975	37,409	44,097
Lott Wastewater Alliance	68,715	53,389	60,620
	<u>\$308,372</u>	<u>\$ 220,911</u>	<u>\$ 285,798</u>

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

### 4. Capital Contributions

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 approximately \$702,042,460 in grants to the State, of which approximately \$695,218,964 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$125,415,365 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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EXHIBIT 1: Notes to the Financial Statements for FY16**

(Figures are in Thousands)

<b>Year</b>	<b>Grant Award</b>	<b>Funds Drawn As of June 30, 2014</b>	<b>Funds Drawn During Year Ended June 30, 2015</b>	<b>Funds Drawn As of June 30, 2015</b>	<b>Funds Drawn During Year Ended June 30, 2016</b>	<b>Funds Drawn As of June 30, 2016</b>	<b>Available for Loans as of June 30, 2016</b>
1989-2009	\$ 476,311	\$ 476,311	\$ -	\$ 476,311	\$ -	\$ 476,311	\$ -
2010	35,433	35,433	-	35,433	-	35,433	-
2011	25,680	3,373	-	25,680	-	25,680	-
2012	24,578	8,545	16,033	24,578	-	24,578	-
2013	23,247	-	2,143	2,143	21,104	23,247	-
2014	24,383	-	-	-	24,383	24,383	-
2015	24,258	-	-	-	17,434	17,435	8,187
	<u>633,890</u>	<u>545,969</u>	<u>18,176</u>	<u>564,145</u>	<u>62,921</u>	<u>627,067</u>	<u>8,187</u>
2008-ARRA	<u>68,152</u>	<u>68,152</u>	-	<u>68,152</u>	-	<u>68,152</u>	-
	<u>\$ 702,042</u>	<u>\$ 614,121</u>	<u>\$ 18,176</u>	<u>\$ 632,297</u>	<u>\$ 62,921</u>	<u>\$ 695,218</u>	<u>\$ 8,187</u>

**4. Capital Contributions (Continued)**

(Figures are in Thousands)

	<b>State Match Applied As of June 30, 2014</b>	<b>State Match Applied During Year Ended June 30, 2015</b>	<b>State Match Applied As of June 30, 2015</b>	<b>State Match Applied During Year Ended June 30, 2016</b>	<b>State Match Applied As of June 30, 2016</b>
State Disbursed	<u>\$ 109,196</u>	<u>\$ 3,507</u>	<u>\$ 112,832</u>	<u>\$ 12,588</u>	<u>\$ 125,420</u>

The 2008-ARRA grant was fully expended during the year ending June 30, 2014. Of the \$68,151,900 expended, \$40,123,209 was used for principal forgiveness.

**4. Capital Contributions (Continued)**

**Administrative Fund**

In July 2013, legislation in the state of Washington became effective which allows CWSRF to collect a service charge on loans which will be used for administrative costs. The fees collected and the expenses incurred are not included in the accompanying financial statements. Revenue collected and expenses incurred for the administrative fund are as follows:

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
Administrative fee collected	\$1,787,670	\$ 1,189,363
Interest on admin fee collected	<u>\$ 9,156</u>	<u>\$ 947</u>
	<u>\$ 1,796,826</u>	<u>1,190,310</u>
Operating expenses incurred	<u>\$ -</u>	<u>\$ -</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 state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. 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. Refer to the State’s Risk Management disclosure in the June 30, 2016 and 2015, Comprehensive Annual Financial Reports.

**6. Retirement Plans**

**Plan Description**

As established in chapter 41.50 of the Revised Code of Washington (RCW), the Department of Retirement Systems (DRS) administers eight retirement systems covering eligible employees of the state and local governments. The DRS administered systems are comprised of 12 defined benefit pension plans and three defined benefit/defined contribution plans.

## 6. Retirement Plans (Continued)

The Washington Legislature established the Public Employees' Retirement System (PERS) in 1947. PERS retirement benefit provisions are established in chapters 41.23 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes: Elected officials; state employees; employees of the Supreme Appeals, and Superior Courts (other than judges currently in the judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local government. Approximately 49 percent of PERS salaries are accounted for by state employment.

Ecology employees are only in one of the PERS or TRS (Teachers Retirement System). An employee can only be in the TRS if they transferred into Ecology as a participant in that plan. The DRS prepares a stand-alone financial report that is compliant with the requirements of Statement number 67 of the Governmental Accounting Standards Board. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, PO Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administration/annual-report/>.

PERS plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS 1 and 2 plan members are vested after the completion of 5 years of eligible service. PERS 3 plan members are vested after 10 years of service or after 5 years of service, if 12 months of this service are earned after age 44. For the year ended June 30, 2015, the investment rate of return on investments was 7.5 percent. For years ended 2015, 2014 and 2013 the rate was 7.5, 7.8 and 7.9 percent respectively.

The long-term expected rate of return is approximately 7.5 percent over a fifty-year time horizon.

PERS plans provide retirement, disability, and death benefits to eligible members.

Contributions, annual pension costs and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2015, 2014, and 2016 are not determinable at the Account level. However, this information is reported at a statewide level in the State of Washington's Comprehensive Financial Report.

## 6. Retirement Plans (Continued)

### Other Post Employment Benefits

#### Plan Description

The Public Employees' Benefits Board (PEBB) created within the Health Care Authority (HCA) is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. PEBB programs include medical, dental, life, and long-term disability.

The relationship between the PEBB other postemployment benefits (OPEB) plan and its member employers and their employees are retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members, and the historical pattern of practice with regard to the sharing of benefit costs.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. In fiscal years 2015 and 2014, respectively, the cost of the subsidies was approximately 6.0 and 5.9 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

Projections of benefits for financial reporting purposes are based on the terms of the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective calculations.

More information on the State Retirement plan can be found in the State CAFR <http://www.ofm.wa.gov/cafr/2015/CAFR15.pdf>

Contributions, annual, other post employment benefit costs, and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2015, 2014, and 2013 are not determinable at the Account level. However, this information is reported at a statewide level in the State of Washington's Comprehensive Financial Report.

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EXHIBIT 1: Notes to the Financial Statements for FY16**

Information for fiscal year 2016 was not available at the time of this report.

WASHINGTON STATE DEPARTMENT OF ECOLOGY  
 CWSRF ANNUAL REPORT FOR SFY 16 (7/1/15 – 6/30/16)  
 EXHIBIT 2: Disbursements and Accruals

	SFY 2016	Federal	State
2016 DISBURSEMENTS FOR LOANS	\$ 74,042,051	\$61,699,238	\$12,342,813
2016 DISBURSEMENTS FOR ADMIN	\$1,467,697	\$1,222,102	\$245,595
TOTAL DISBURSEMENTS	\$75,509,748	\$62,921,340	\$12,588,408
2016 CASH DRAW FROM CAPITALIZATION GRANTS	(\$62,921,340)		
2016 STATE MATCH (20% of CASH DRAWS)	(\$12,588,408)		
2016 100% STATE FUNDS DISBURSEMENTS	\$94,585,283		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$170,095,031		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.33%		
ADMIN CALCULATION	1%		

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CWSRF ANNUAL REPORT FOR SRY 16 (7/1/15-6/30/16)  
EXHIBIT 3: Comparative Statement of Net Position**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	189,943,767	217,837,096
Collateral Held/Security Lending Agreements	6,113,251	6,116,710
Receivables:		
Due from federal government	106,909	1,354,788
Loan interest	2,282,380	2,332,228
Due from other funds	169,343	178,874
Loans receivable:		
Current portion	47,582,734	47,689,616
Total current assets	<u>246,198,384</u>	<u>275,509,313</u>
<b>OTHER ASSETS</b>		
Loans receivable:		
Noncurrent	727,904,896	613,831,101
Total other assets	<u>727,904,896</u>	<u>613,831,101</u>
<b>TOTAL ASSETS</b>	<u>974,103,280</u>	<u>889,340,414</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	720,470	(14,849,074)
Due to other funds	19,009	9,846,999
Due to other Agencies	32,560	
Obligation Under Security Lending Agreement	6,113,251	6,116,710
Total current liabilities	<u>6,885,277</u>	<u>1,114,635</u>
<b>NET POSITION</b>		
Unrestricted	967,218,003	888,225,779
Total net position	<u>974,103,280</u>	<u>888,225,779</u>



WASHINGTON STATE DEPARTMENT OF ECOLOGY  
 CWSRF ANNUAL REPORT FOR SFY 16 (7/1/15-6/30/16)  
 EXHIBIT 4: Comparative Statement of Revenues, Expenses, and Changes In Net Position

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUE</b>		
Loan interest income	12,287,200	12,226,612
Total operating revenue	<u>12,287,200</u>	<u>12,226,612</u>
<b>OPERATING EXPENSES</b>		
Personnel services	951,340	924,793
Other expenses	516,357	335,915
Total operating expenses	<u>1,467,697</u>	<u>1,260,708</u>
<b>INCOME FROM OPERATIONS</b>	<u>10,819,503</u>	<u>10,965,904</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Net investment income	1,343,235	791,376
Prior Period Adj & Loan Services	46,881	
Loan Principal Forgiveness expense	(2,138,737)	(6,396,723)
Total nonoperating revenue (expense)	<u>(748,621)</u>	<u>(5,605,347)</u>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<u>10,070,882</u>	<u>5,360,557</u>
<b>CONTRIBUTIONS</b>		
EPA capitalization grant	62,921,340	18,176,224
State match revenue	6,000,000	15,500,000
Total contributions	<u>68,921,340</u>	<u>33,676,224</u>
<b>CHANGE IN NET POSITION</b>	78,992,222	39,036,781
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>888,225,778</u>	<u>849,188,997</u>
<b>NET POSITION - END OF YEAR</b>	<u>967,218,001</u>	<u>\$ 888,225,778</u>

**STATE OF WASHINGTON  
WATER POLLUTION CONTROL REVOLVING ACCOUNT  
EXHIBIT 5: COMPARATIVE STATEMENT OF CASH FLOWS**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from interest on loans	10,541,149	\$ 12,089,592
Loans disbursed	(168,627,334)	(28,296,843)
Principal received on loans receivable	54,032,838	41,272,038
Cash paid to employees and vendors	(1,412,471)	(8,649,587)
Cash flows provided (required) by operating activities	<u>(151,977,351)</u>	<u>16,415,200</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Funds received from EPA	62,814,431	18,191,115
Funds received from the state of Washington	6,000,000	15,500,000
Cash flows provided by noncapital financing activities	<u>68,814,431</u>	<u>33,691,115</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment income received	1,343,235	791,376
Net cash provided by investing activities	<u>1,343,235</u>	<u>791,376</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	(81,819,684)	50,897,690
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>217,837,096</u>	<u>166,939,406</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>136,017,412</u>	<u>\$ 217,837,096</u>
<b>Reconciliation of operating income to net cash required by operating activities</b>		
Income from operations	10,819,503	\$ 10,965,904
Adjustments to reconcile income from operations to net cash required by operating activities:		
Effect of changes in operating assets and liabilities:		
Loan interest receivable	39,788	(137,020)
Due to other funds	9,531	(60,438)
Loans receivable	113,966,913	12,975,195
Accounts payable and accrued expenses	(15,598,633)	(17,023,297)
Due to other funds	(9,827,989)	9,694,856
Net cash provided (required) by operating activities	<u>\$99,409,113</u>	<u>\$ 16,415,200</u>