



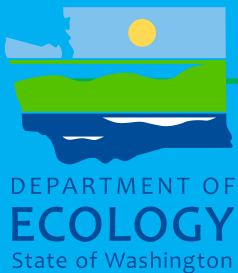
Annual Report

Washington's Clean Water State Revolving Fund (CWSRF)

For State Fiscal Year 2017
July 1, 2016 – June 30, 2017

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Annual Report
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, 2017, Ecology's CWSRF program had received a total \$725,277,460 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 \$1,728,675,811.

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 2017 (SFY17) 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 SFY17 (July 1, 2016, through June 30, 2017).

The SFY17 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 October 16, 2015. 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 2017 Water Quality Financial Assistance* Publication #15-10-033. 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 35 applications for over \$150 M in loans for the SFY17 funding.

Ecology used the Federal Fiscal Year (FFY) 2016 appropriation of \$23,235,000 as the capitalization grant for the SFY17 IUP. Ecology set the SFY17 CWSRF program capacity at \$100 M. In addition to the EPA capitalization grant, CWSRF program funds came from a required state match of 20 percent of the grant (\$4,647,000), principal repayments, and interest and investment earnings.

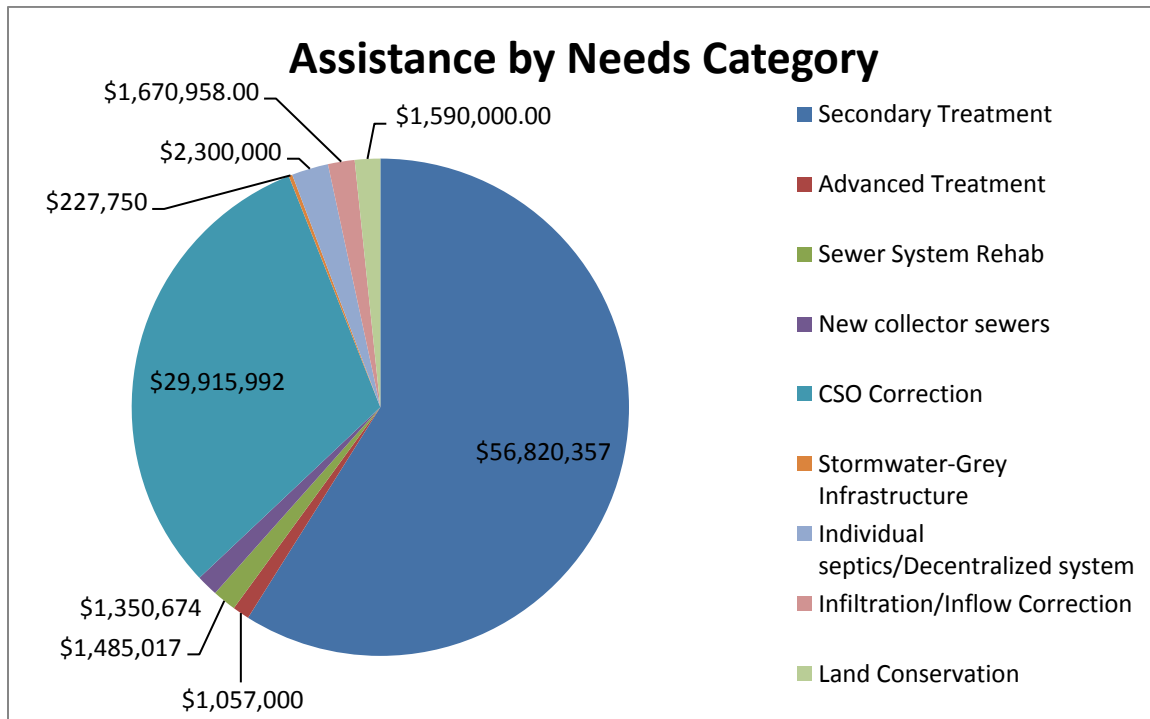
For SFY17, Ecology issued binding commitments for 31 projects totaling \$96,417,748. The weighted interest for these agreements is 1.727 (51 percent of the market rate for tax-exempt municipal bonds). Of these binding commitments, \$3,114,886 was provided in the form of forgivable principal (loans that do not have to be repaid). The FFY16 capitalization grant (cap grant) set a minimum of \$2,323,500 for forgivable principal loans.

The FFY16 capitalization grant required Ecology to award 10 percent of the federal cap grant (\$2,323,500) to projects or project elements that fit within one or more of the Green Project Reserve (GPR) categories. These categories include:

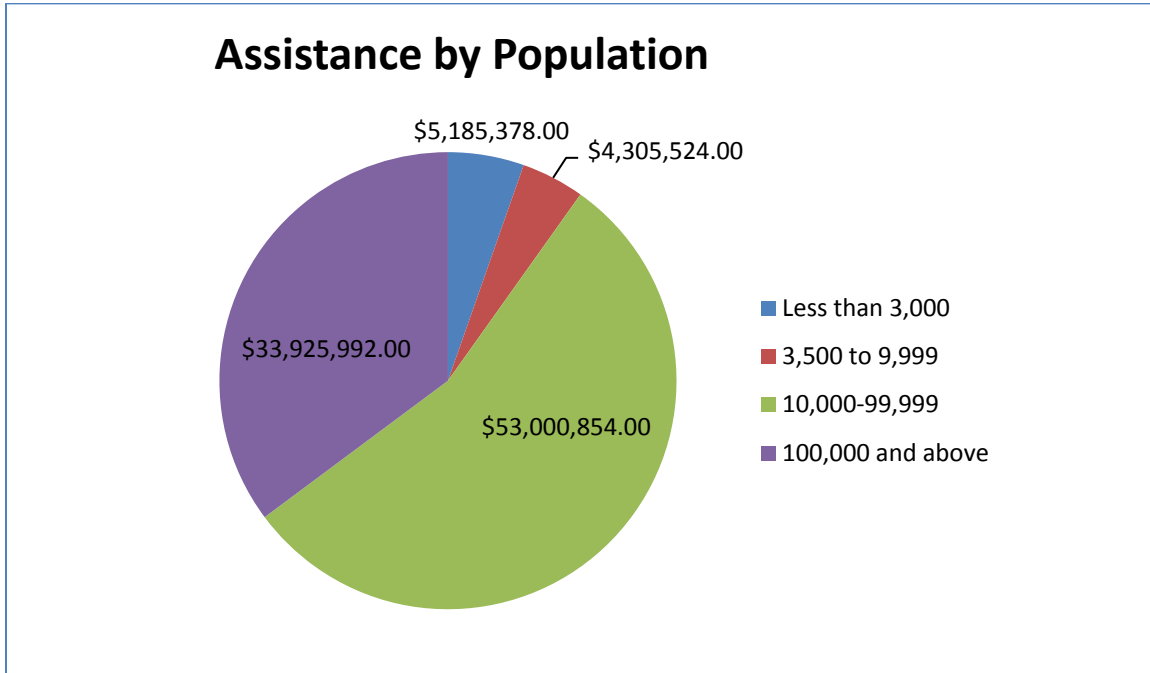
- environmentally innovative.
- water efficiency.
- energy efficiency.
- green infrastructure.

Ecology awarded \$7,670,000 or 28 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 96 percent of the funds in SFY17 are being used for Clean Water Act (CWA) Section 212 projects (wastewater projects) and 4 percent for CWA Section 319 (nonpoint activity projects). Another 56 percent 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. Over half or 55 percent of the CWSRF funds supported projects in the population category of 10,000-99,999.



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 applies an administrative charge that went into effect December 2013. The administrative charge sets Ecology on track for 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 available funding 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 Water Quality Program (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 SFY16 funding cycle, Ecology added state funding 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 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 use the funds. The FFY16 capitalization grant is administered in the SFY17 funding cycle.

What's in this report

This report discusses how Ecology administered the CWSRF FFY16 capitalization grant, state match, and principal and interest repayments during SFY17. 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 FFY16 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY17.
- Presents a Management Discussion and Analysis section providing CWSRF financial statements.
- Includes several exhibits containing the unaudited financial statements of the CWSRF for SFY17.

Ecology and the Water Quality Program's Goals, 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.
- Clean up polluted waters and engage citizens in the work to protect and restore water quality.
- Provide excellent technical and financial assistance.

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 focused 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 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, 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 required all projects located in the Puget Sound Watershed (defined by Water Resource Inventory Areas 1 – 19) to comply 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 Ecology consults include, but are not limited to, the following:
 - Water Quality Financial Assistance Council (FAC).
 - 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, including the public, in major funding program development, including rules and funding offer lists.
 - Ecology regularly requests comments and feedback from stakeholders and clients on potential changes or improvements to its funding guidelines and application process.
 - In SFY17, Ecology organized and facilitated four 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 SFY17 Ecology developed a Draft IUP for SFY18 offers. Ecology made the Draft IUP available to the public for comment. 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 improves consistency and objectivity 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 otherwise result in sewer fees for residential ratepayers that are more than two percent of the median household income (MHI).
 - In SFY17 Ecology offered 34 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 SFY17 Ecology offered approximately 1.8 percent of the CWSRF funds to preconstruction projects in small communities. Ecology offered approximately 47 percent of the forgivable principal loan 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 SFY17, Ecology identified a reduced SFAP grant match for 12 stormwater projects. Due to a huge cut in SFAP funding, Ecology was not able to offer these communities funding. There are some projects on a “Delayed Status” list that Ecology will fund if the State allocates SFAP funding in SFY18.
- 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.
 - Ecology determines the final CWSRF interest rate for local onsite sewage system repair and replacement programs 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.
 - 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.
 - American iron and steel
 - 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 SFY17 cycle across the state on August 18, 19, 26, and 27, 2015.
- 4) Conduct two annual funding recipient workshops.
 - Ecology held recipient workshops in Tacoma and Moses Lake in July 2016 for the SFY17 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 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 an Ecology staff member is

Vice Chair. Funding agency representatives work to coordinate the infrastructure funding programs to enable sharing information and problem solving.

- The IACC hosted its annual conference October 18-20, 2016, 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 uses the average “11-Bond GO Index” rate available at http://www.bondbuyer.com/marketstatistics/search_bbi.html?details=true to set annual interest rates for CWSRF. Ecology bases rates on the average bond rate for the period 30 to 60 days prior to the beginning of a new funding cycle. Ecology sets interest rates at either 60 percent or 30 percent of the average bond rate, depending on the length of the loan period. The interest rates for standard CWSRF loans in SFY17 were:
 - 1.0 percent for a five-year loan (30 percent of tax-exempt municipal bonds).
 - 2.0 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. For SFY17, our weighted average interest rate on loans was 1.72676%.
- 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 directs 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.

- CWSRF agreements require 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.
 - Ecology monitors recipient audit reports and takes action when appropriate.
 - Ecology Financial Managers and Project Managers provide oversight and monitoring 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, 2016, October 6, 2016, November 10, 2016, and May 15, 2017, 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 9, 2016 and May 18, 2017 to review program status, fund management, and emerging issues.
 - Ecology coordinated with the Community Development Block Grant (CDBG), Department of Health (DOH) and USDA Rural Development (RD) on funding 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. This report discusses several of the conditions are discussed in other sections; 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 31 CWSRF agreements totaling \$96,417,748 in SFY17. Table 1 lists the one project totaling \$975,000 that declined their funding offer. Table 2 provides information on agreements signed or binding commitments made in SFY17.

Table 1: Declined Funding Offers

Application Number	Applicant	Amount
WQC-2017-Concre-0046	Concrete, Town of	975,000
Total	1 project	\$975,000

Table 2: CWSRF Agreements/Binding Commitments in SFY17

Application Number	Agreement Number	Recipient Name	Project Title	Clean Water Needs Category	Total Assistance	CWSRF Loan	CWSRF Forgivable Principal	Int Rate %	Term	Binding Commitment Date
WQC-2016-Craft3-00376/ WQC-2017-IsCoPH-00130		Craft 3	On-Site Sewage System Financial Assistance Program	Individual/Decentralized Systems	\$2,000,000	\$2,000,000		1.0%	5	6/15/2017
WQC-2016-OakHar-00240	EL170038	Oak Harbor city of	City of Oak Harbor Wastewater Treatment Plant	Secondary Treatment	\$44,766,854	\$44,766,854		1.6%	20	11/22/2016
WQC-2017-Asotin-00194	EL170088	Asotin city of	2nd Street (Harding to Washington) Stormwater Improvements	Stormwater-Grey Infrastructure	\$163,750	\$163,750		2.0%	20	5/31/2017
WQC-2017-ChCPUD-00119	EL170133/E F170134	Chelan County Public Utilities District	Peshastin/Dryden Wastewater Improvement Project	73-Secondary Treatment 27-Advanced Treatment	\$3,500,000	\$3,332,000	\$168,000	0.8%	20	4/26/2017
WQC-2017-Cheney-00214	EL170076/E F170077	Cheney city of	City of Cheney Reclaimed Water Engineering Report	Advanced Treatment	\$112,000	\$56,000	\$56,000	1.0%	5	3/6/2017
WQC-2017-Kalama-00161	EL170079/E F170080	Kalama city of	Kalama General Sewer and Wastewater Facilities Plan	New Collector Sewers	\$100,000	\$50,000	\$50,000	1.0%	5	3/28/2017
WQC-2017-KCoNRP-00011	EL170137	King County - Natural Resources and Parks Department	Rainier Valley Wet Weather Storage Project	CSO Correction	\$21,074,263	\$21,074,263		2.0%	20	6/15/2017

Application Number	Agreement Number	Recipient Name	Project Title	Clean Water Needs Category	Total Assistance	CWSRF Loan	CWSRF Forgivable Principal	Int Rate %	Term	Binding Commitment Date
WQC-2017-Kennew-00097	EL170042/E F170043	Kennewick city of	Kennewick WWTP Sustainability Improvements Phase 1	Secondary Treatment	\$3,885,000	\$3,405,000	\$480,000	2.0%	20	1/30/2017
WQC-2017-Kennew-00222	EL170046	Kennewick city of	Kennewick WWTP Sustainability Improvements Phase 2	Secondary Treatment	\$2,347,000	\$2,347,000		2.0%	20	1/30/2017
WQC-2017-LOTCWA-00029	EL170022	LOTT Clean Water Alliance	Process Control Improvements Project	Secondary Treatment	\$2,010,000	\$2,010,000		2.0%	20	12/7/2016
WQC-2017-LTS-00199	EL170094/E F170095	Lummi Tribal Sewer and Water District	Lummi Tribe: Gooseberry Point WWTF Facilities Plan	70-Secondary Treatment 30-Sewer System Rehabilitation	\$120,000	\$60,000	\$60,000	2.0%	20	6/15/2017
WQC-2017-Mabton-00060	EL170130/E F170131	Mabton city of	City of Mabton General Sewer Plan	Sewer System Rehabilitation	\$75,000	\$37,500	\$37,500	2.0%	20	4/7/2017
WQC-2017-Palous-00128	EL170086	Palouse city of	City of Palouse Wastewater Facility Plan	Secondary Treatment	\$167,670	\$167,670		1.0%	5	4/6/2017
WQC-2017-PorToc-00182	EL170091/E F170092	Port Townsend city of	Wastewater Treatment Plant Outfall Replacement Project	Secondary Treatment	\$408,000	\$204,000	\$204,000	2.0%	20	4/13/2017
WQC-2017-RoyalC-00080	EL170026/E F170027	Royal City city of	Royal City Wastewater Facility Plan Amendment	Secondary Treatment	\$40,000	\$20,000	\$20,000	2.0%	20	3/10/2017

Application Number	Agreement Number	Recipient Name	Project Title	Clean Water Needs Category	Total Assistance	CWSRF Loan	CWSRF Forgivable Principal	Int Rate %	Term	Binding Commitment Date
WQC-2017-SCPUD1-00038	EL170140/E F170141	Skagit-Public Utility District No.1	Gilligan Creek Watershed Property Protection	Land Conservation	\$1,590,000	\$1,192,500	\$397,500	2.0%	20	3/29/2017
WQC-2017-SeqPW-00162	EL170159/E F170160	Sequim city of - Public Works Department	Doe Run Lift Station Improvements	Sewer System Rehabilitation	\$589,000	\$547,930	\$41,070	1.8%	20	6/14/2017
WQC-2017-SeqPW-00177	EL170161/E F170162	Sequim city of - Public Works Department	Sunnyside Sanitary Sewer Improvement	Sewer System Rehabilitation	\$513,800	\$488,763	\$25,037	1.8%	20	6/14/2017
WQC-2017-SeqPW-00186	EL170147/E F170148	Sequim city of - Public Works Department	Aerobic Digester Capacity Upgrades	Secondary Treatment	\$178,050	\$89,025	\$89,025	1.8%	20	6/19/2017
WQC-2017-SJCoHC-00164	EL170122	San Juan County Health and Community Services	San Juan County On-Site Sewage System Repair Financial Assistance Program	Individual/Decentralized Systems	\$300,000	\$300,000		1.0%	5	4/13/2017
WQC-2017-SoaLak-00086	EL170168/E F170169	Soap Lake city of	Stormwater Plan	Stormwater-Grey Infrastructure	\$64,000	\$32,000	\$32,000	2.0%	20	5/12/2017
WQC-2017-Spangl-00207	EL170036/E F170037	Spangle town of	Spangle Wastewater Treatment Plant	Secondary Treatment	\$27,000	\$13,500	\$13,500	2.0%	20	12/6/2017
WQC-2017-Spokane-00018	EL170016	Spokane city of	Riverside Interceptor Protection	CSO Correction	\$4,200,000	\$4,200,000		2.0%	20	3/30/2017
WQC-2017-Spokane-00020	EL170019	Spokane city of	Rebecca Control Facility for CSO Basin 41	CSO Correction	\$2,393,870	\$2,393,870		2.0%	20	3/10/2017

Application Number	Agreement Number	Recipient Name	Project Title	Clean Water Needs Category	Total Assistance	CWSRF Loan	CWSRF Forgivable Principal	Int Rate %	Term	Binding Commitment Date
WQC-2017-Spokane-00021	EL170017	Spokane city of	River Infiltration Reduction	CSO Correction	\$1,200,859	\$1,200,859		2.0%	20	3/10/2017
WQC-2017-Spokane-00154	EL170070	Spokane city of	High Drive Stormwater Improvements	CSO Correction	\$1,047,000	\$1,047,000		2.0%	20	3/10/2017
WQC-2017-Sprague-00221	EL170089/E F170090	Sprague city of	Lift Station Improvement Project	Infiltration and Inflow Correction	\$824,000	\$784,450	\$39,550	1.4%	20	4/13/2017
WQC-2017-Toppenish-00181	EL170039/E F170040	Toppenish city of - Public Works Department	Penny Lane Lift Station and Collection Sewers	50-l/l 50 Sewer System Rehab	\$1,246,000	\$797,800	\$448,200	1.6%	20	12/29/2017
WQC-2017-TwispPW-00151	EL170074/E F170075	Twisp town of - Public Works	Town of Twisp General Sewer Plan and Biosolids Evaluation	Infiltration and Inflow Correction	\$223,958	\$111,979	\$111,979	2.0%	20	3/20/2017
WQC-2017-VaViSD-00003	EL170065/E F170066	Valley View Sewer District	Military Road South/Hilltop	New Collector Sewers	\$762,546	\$165,085	\$597,461	2.0%	20	2/13/2017
WQC-2017-VaViSD-00066	EL170069/E F170068	Valley View Sewer District	The Loop	New Collector Sewers	\$488,128	\$244,064	\$244,064	2.0%	20	2/13/2017
				Total Binding Commitments	\$96,417,748	\$93,302,862	\$3,114,886			

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 SFY17.

Table 3: Binding Commitments with Respect to Federal Grant Payments in SFY17

Capitalization Grant Received During SFY17	\$23,235,000
Binding Commitments Required Within One Year of Receipt	\$27,882,000
Binding Commitments at the End of SFY17	\$96,417,748
Percent of Capitalization Grant under Binding Commitment at the End of SFY17	415%

Timely and expeditious use of funds

EPA requires Ecology 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 SFY17 in addition to the cumulative loan obligations through SFY16. The table shows that Ecology has committed more than 109 percent of the cumulative funds available through SFY17.

Table 4: Timely and Expeditious Use of Federal Funds

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY16)	\$ 657,125,560	\$ 68,151,900	\$ 725,277,460
State Match (cumulative through SFY17)	131,426,227		131,426,227
Principal and Interest Collected (cumulative through SFY17)			774,880,503
State Treasurer’s Office Interest (cumulative through SFY17/cash basis)			38,402,982
Administration 4% (cumulative through SFY17)	(26,286,138)	(2,726,076)	(29,012,214)
Total Funds (cumulative through SFY17)	762,265,650	65,425,824	1,640,974,959
Loan Obligations (cumulative through SFY17)	\$1,663,226,162	\$ 65,449,649	\$ 1,728,675,811
Loans as % of Funds Available			105.34%

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

State match

The 2015-17 Biennial budget authorized the State Treasurer to transfer \$12 million for CWSRF State match. The legislation authorized the match as a Treasurer's cash transfer from the Public Works Assistance account into account 727. At the beginning of SFY16 and SFY17, the State Treasurer deposited \$6 million into the CWSRF account. These funds are sufficient to meet the match requirements for SFY16 and SFY17.

Green Project Reserve

The FFY16 grant from EPA required Ecology to offer a minimum of ten percent of the grant to Green Project Reserve (GPR) projects or GPR elements of projects. The FFY16 grant totaled \$23,235,000 which set the GPR requirement at \$2,325,500.

In SFY17 Ecology made specific offers of \$7,670,000 M to the six GPR-eligible projects (Table 5). These funds equal thirty three percent of the cap grant, meeting the ten percent requirement.

Table 5: Green Project Reserve (GPR) Offers in SFY17

Application Number	Agreement Number	Recipient Name	Project Title	GPR Category	Standard Loan Amount	Forgivable Principal Loan Amount
WQC-2016-Craft3-00376/ WQC-2017-IsCoPH-00130		Craft 3	On-Site Sewage System Financial Assistance Program	4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing onsite wastewater systems.	\$1,500,000	
WQC-2017-Kennew-00097	EL170042/ EF170043	Kennewick city of	Kennewick WWTP Sustainability Improvements Phase 1	3.2-2 Projects that achieve a 20% reduction in energy consumption.	\$1,440,000	\$ 480,000
WQC-2017-LOTOWA-00029	EL170022	LOTT Clean Water Alliance	Process Control Improvements Project	3.2-2 Projects that achieve a 20% reduction in energy consumption.	\$2,010,000	
WQC-2016-OakHar-00240	EL170038	Oak Harbor city of	City of Oak Harbor Wastewater Treatment Plant	4.2-5 Construction of a LEED certified building on POTW Facilities.	\$ 450,000	
WQC-2017-SJCoHC-00164	EL170122	San Juan County Health and Community Services	San Juan County On-Site Sewage System Repair Financial Assistance Program	4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing onsite wastewater systems.	\$ 200,000	
WQC-2017-SCPUD1-00038	EL170140/ EF170141	Skagit-Public Utility District No.1	Gilligan Creek Watershed Property Protection	1.2-10 Fee simple purchas of land or easements.	\$1,192,500	\$ 397,500
Total				\$ 7,670,000	\$6,792,500	\$ 877,500

Additional subsidization (ASR) and sustainability of funded projects

The FFY16 grant from EPA specifies that Ecology must use ten percent of the grant to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants. The FFY16 grant totaled \$23,235,000 which set the ASR requirement at \$2,325,500. Ecology meets the requirement by providing forgivable principal loans to wastewater treatment preconstruction projects that demonstrate financial hardship and to GPR-eligible projects.

In SFY17 Ecology provided forgivable principal loans to 19 applicants totaling \$3,114,886, exceeding the ten percent requirement. 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 SFY17

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afford the project without additional subsidization?
WQC-2017-ChCPUD-00119	EF170134	Chelan County Public Utilities District	Peshastin/Dryden Wastewater Improvement Project	\$ 168,000	Sustainable Planning and Design	No
WQC-2017-Cheney-00214	EF170077	Cheney city of	City of Cheney Reclaimed Water Engineering Report	\$ 56,000	Sustainable Planning and Design	Yes
WQC-2017-Kalama-00161	EF170080	Kalama city of	Kalama General Sewer and Wastewater Facilities Plan	\$ 50,000	Sustainable Planning and Design	Yes
WQC-2017-Kennew-00097	EF170043	Kennewick city of	Kennewick WWTP Sustainability Improvements Phase 1	\$ 480,000	Green Project Reserve	Yes
WQC-2017-LTS-00199	EF170095	Lummi Tribal Sewer and Water District	Lummi Tribe: Gooseberry Point WWTF Facilities Plan	\$ 60,000	Sustainable Planning and Design	Yes
WQC-2017-Mabton-00060	EF170131	Mabton city of	City of Mabton General Sewer Plan	\$ 37,500	Sustainable Planning and Design	Yes

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afford the project without additional subsidization?
WQC-2017-Portoc-00182	EF170092	Port Townsend city of	Wastewater Treatment Plant Outfall Replacement Project	\$ 204,000	Sustainable Planning and Design	Yes
WQC-2017-RoyalC-00080	EF170027	Royal City city of	Royal City Wastewater Facility Plan Amendment	\$ 20,000	Sustainable Planning and Design	Yes
WQC-2017-SequPW-00162	EF170160	Sequim city of - Public Works Department	Doe Run Lift Station Improvements	\$ 41,070	Sustainable Planning and Design	No
WQC-2017-SequPW-00177	EF170162	Sequim city of - Public Works Department	Sunnyside Sanitary Sewer Improvement	\$ 25,037	Sustainable Planning and Design	No
WQC-2017-SequPW-00186	EF170148	Sequim city of - Public Works Department	Aerobic Digester Capacity Upgrades	\$ 89,025	Sustainable Planning and Design	No
WQC-2017-SCPUD1-00038	EF170141	Skagit-Public Utility District No.1	Gilligan Creek Watershed Property Protection	\$ 397,500	Green Project Reserve	Yes
WQC-2017-SoaLak-00086	EF170169	Soap Lake city of	Stormwater Plan	\$ 32,000	Sustainable Planning and Design	Yes
WQC-2017-Spangl-00207	EF170037	Spangle town of	Spangle Wastewater Treatment Plant	\$ 13,500	Sustainable Planning and Design	Yes
WQC-2017-Spragu-00221	EF170090	Sprague city of	Lift Station Improvement Project	\$ 39,550	Sustainable Planning and Design	No
WQC-2017-Toppen-00181	EF170040	Toppenish city of - Public Works Department	Penny Lane Lift Station and Collection Sewers	\$ 448,200	Sustainable Planning and Design	No
WQC-2017-TwisPW-00151	EF170075	Twisp town of - Public Works	Town of Twisp General Sewer Plan and Biosolids Evaluation	\$ 111,979	Sustainable Planning and Design	Yes

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afford the project without additional subsidization?
WQC-2017-VaViSD-00003	EF170066	Valley View Sewer District	Military Road South/Hilltop	\$ 597,461	Sustainable Planning and Design	No
WQC-2017-VaViSD-00066	EF170068	Valley View Sewer District	The Loop	\$ 244,064	Sustainable Planning and Design	No
Total				\$ 3,114,886		

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 SFY17

Application Number	Agreement Number	Recipient Name	Project Disc.	Hardship Level	Standard Loan	Int Rate %	Forgivable Principal Loan	Centennial Grant
WQC-2017-ChCPUD-00119	EL170133/ EF170134	Chelan County Public Utilities District	Peshastin /Dryden Wastewater Improvement Project	Severe	\$ 3,332,000	0.8%	\$ 168,000	
WQC-2016-OakHar-00240 (applied under WQC-2017-OakHar-00081)	EL170038	Oak Harbor city of	City of Oak Harbor Wastewater Treatment Plant	Moderate	\$44,766,854	1.6%		
WQC-2017-SequPW-00162	EL170159/ EF170160	Sequim city of - Public Works Department	Doe Run Lift Station Improvements	Moderate	\$ 547,930	1.8%	\$ 41,070	

Application Number	Agreement Number	Recipient Name	Project Disc.	Hardship Level	Standard Loan	Int Rate %	Forgivable Principal Loan	Centennial Grant
WQC-2017- SequPW- 00177	EL170161/ EF170162	Sequim city of - Public Works Department	Sunnyside Sanitary Sewer Improve- ment	Moderate	\$ 488,763	1.8%	\$ 25,037	
WQC-2017- Spragu- 00221	EL170089/ EF170090	Sprague city of	Lift Station Improve- ment Project	Moderate	\$ 784,450	1.4%	\$ 39,550	
WQC-2017- Toppen- 00181	EL170039/ EF170040	Toppenish city of - Public Works Department	Penny Lane Lift Station and Collection Sewers	Moderate	\$ 797,800	1.6%	\$ 448,200	
WQC-2017- VaViSD- 00003	EL170065/ EF170066	Valley View Sewer District	Military Road South/ Hilltop	Severe	\$ 165,085	2.0%	\$ 597,461	\$1,403,453
WQC-2017- VaViSD- 00066	EL170069/ EF170068	Valley View Sewer District	The Loop	Severe	\$ 244,064	2.0%	\$ 244,064	
Total					\$51,126,946		\$1,563,382	\$1,403,453

State Environmental Review Process (SERP) and federal cross cutters

EPA requires Ecology to ensure that all facility design or construction projects receiving through the CWSRF meet SERP. In addition, EPA requires Ecology to ensure that wastewater treatment facility construction equivalency projects meet the federal cross cutter requirements.

In SFY17, Ecology worked closely with EPA to develop a SERP document. Ecology Water Quality management team and EPA's regional director approved and signed the SERP document on October 19, 2016.

Clean Water Benefits Report

EPA requires Ecology 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 from the Clean Water Benefits Reporting (CBR) database. This output report summarizes the clean water benefits for the loans Ecology executed in SFY17.

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	63.8	23	63.8		23	2.9	3	20
Records with Benefits Data	63.8	23	63.8	24.6	23	2.9	3	20
Impacting Human Health	54.0	14	54.0	22.1	14	2.8	3	13
	85%	61%	85%		61%	52,222*		65%
With Impaired Waterbody			52.0	20.6	8	0.2	3	8
			82%		35%	3,079*		40%
With Water Body Meeting Standards			5.7	2.2	6			
To Improve Water Quality			58.9	22.7	13			
To Maintain Water Quality			2.9	1.2	8			
To Achieve Compliance			4.0	0.2	3			
To Maintain Compliance			54.7	23.0	15			

*population 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.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, 2017, the total administrative charge deposited into the Administrative Account (564) totaled \$4,271,192.15. Ecology began using Account (564) to pay for administrative charges totaling \$282,654.53 in SFY17. Ecology plans on using Account (564) for ongoing administration 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 SFY17, 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 SFY17, Ecology was able to expend and close the, FFY 15 and most of the FFY16 capitalization grants.

As of June 30, 2017, we had a balance of \$275,374.35 in the FFY16 cap grant including state match. All other cap grants have been spent.

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, Ecology is starting to see the cash balance reducing. By the end of SFY17, the cash balance dropped to \$144M. This is over a 24% drop from where it was at the end of SFY16 (\$189M). 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 updates 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 Capitalization Grant Ecology receives from EPA.

Due to amendments to the Clean Water Act (CWA) in 2014, 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 it’s approach to meeting equivalency and now applies it to wastewater facility Step 3 and 4 projects for recipients with a population of 25,000 or greater. Table 9 lists the SFY17 projects who met these requirements.

Table 9: SFY17 Equivalency Projects

Recipient Name	Application Number	Agreement Number	Final Loan Amount
Kennewick city of	WQC-2017-Kennew-00097	EL170042 /EF170043	\$ 3,885,000
King County - Natural Resources and Parks Department	WQC-2017-KCoNRP-00011	EL170137	\$ 21,074,263
Spokane city of	WQC-2017-Spokane-00018	EL170016	\$ 4,200,000
Spokane city of	WQC-2017-Spokane-00020	EL170019	\$ 2,393,870

Recipient Name	Application Number	Agreement Number	Final Loan Amount
Spokane city of	WQC-2017-Spokane-00021	EL170017	\$ 1,200,859
Total			\$ 32,753,992

Capitalization Grant Additional Subsidization Compliance Verification

Since the FFY10 capitalization grant, EPA began authorizing a portion of the capitalization grant be used for additional subsidization in the form of a grant, forgivable principal loans or negative interest rate loans. Each capitalization grant since has established a range (min/max) of the grant that could be used to provide these forms of assistance to recipients. Ecology meets this requirement by disbursing forgivable principal loans. EPA is required to verify Ecology met this requirement before they can close that corresponding capitalization grant. Ecology has provided EPA with backup documentation verifying the amounts disbursed by fiscal year for the following agreements. Table 10 shows that Ecology has disbursed forgivable principal loans within the designated min/max amounts for the FFY10 (CS-53000110), FFY11 (CS-53000111) and FFY12 (CS-53000112) capitalization grants. This fulfills Ecology's requirement and the following cap grants can be closed.

Table 10: Forgivable Principal Loan disbursement by Fiscal year

FFY10/SFY11		\$ 35,433,000
AS (min)		\$ 5,307,863
AS (max)		\$ 17,688,154
Recipient	Loan Number	Amount Disbursed
Kettle Falls, City of	L10S0036	\$ 3,998,117
Centralia, City of	L11S0007	\$ 1,989,949
Camas, City of	L11S0005	\$ 1,771,650
Rosalie, Town of	L10S0037	\$ 535,826
Airway Heights, City of	L11S0011	\$ 119,331
Mason County Utilities Waste Mgm	L11S0013	\$ 129,440
Total		\$ 8,544,312

Table 10: continued:		
FFY11/SFY12		\$ 25,680,000
AS (min)		\$ 2,380,536
AS (max)		\$ 7,932,552
Recipient	Loan Number	Amount Disbursed
Longview, City of	L12S0008	\$ 12,299
San Juan Co Health and Community Service	L12S0013	\$ 145,725
Yakima, City of	L11S0008	\$ 503,558
Yakima, City of	L12S0019	\$ 185,857
Skagit County Panning and Development Services	L11S0016	\$ 247,007
Tonasket, City of	L12S0018	\$ 1,384,697
	Total	\$ 2,479,143
FFY12/SFY13		\$ 24,578,000
AS (min)		\$ 1,364,079
AS (max)		\$ 2,047,347
Recipient	Loan Number	Amount Disbursed
Curlew Water and Sewer District	L12S0002	\$ 413,100
Tekoa, City of	L13S0002	\$ 53,199
Ilwaco, City of	L13S0006	\$ 21,541
Deer Park, City of	L13S0007	\$ 25,719
Deer Park, City of	L13S0008	\$ 299,998
Riverside, Town of	L13S0019	\$ 24,996
Mason County	L12S0025	\$ 978,919
	Total	\$ 1,817,471

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, 2017 and 2016. 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) 2016 grant award was \$23,235,000. Ecology matches 20 percent of the grant award with state funds, of \$4,647,000. 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) 2017 was \$109M as published in Ecology's Intended Use Plan. CWSRF loan interest rates are between zero and 2 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, 2017 is \$1,015,072,507.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF. The basic financial statements of the CWSRF are intended to present the financial position, changes in financial position, and cash flows as of the years ended June 30, 2017 and 2016, of only that portion of the financial reporting entity of the Department of Ecology that is attributable to the transactions of the CWSRF. They do not present the financial position of the Department of Ecology or the State of Washington (State) as of June 30, 2017 and 2016 and the change in their financial positions and their cash flows for those years.

Overview of Financial Statements

The financial statements of the CWSRF are presented as a special purpose government engaged only in the business type activities – providing loans to other governmental entities. The statements provide both short-term and long-term information about the CWSRF's financial position, which 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 deteriorating.
- The *Statements of Revenues, Expenses, and Changes in Net Position* present information which reflects how the CWSRF's net position changed during the past year. All changes in the net position are reported as soon as the underlying event giving rise to 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

Net Position	June 30,		
	2017	2016	2015
ASSETS			
Cash and cash equivalents	\$ 144,853,771	\$ 189,943,767	\$ 233,337,096
Loans receivable	871,299,096	775,487,630	661,520,717
All other assets	4,783,198	8,671,883	9,982,601
Total assets	1,020,936,065	974,103,280	904,840,414
LIABILITIES			
Current liabilities	5,863,556	6,885,279	16,614,635
Total liabilities	5,863,556	6,885,279	16,614,635
NET POSITION			
Unrestricted	1,015,072,509	967,218,001	888,225,779
Total net position	\$ 1,015,072,509	\$ 967,218,001	\$ 888,225,779

Changes in net position

During SFY17 the CWSRF cash decreased by \$45,089,996, as seen on the Statement of Net Position. The decrease in cash is a result of awarding more loans. The State Treasurer's office credited \$1,183,495 in interest to the CWSRF account. The EPA capitalization grant funds provided \$29,829,027, and the State of Washington provided \$ 6,000,000 in matching funds. While cash decreased from SFY16 to SFY17, this is what Ecology expected as a result of it awarding more loans using cash flow acceleration for priority water quality projects throughout the State in 2017.

The change in loans receivable is caused by disbursing new loans in an amount less than receipts on existing loans. Ecology disbursed \$144,008,824 in loans during the year. Ecology received \$53,059,604 in principal payments from borrowers and applied \$1,963,274 in principal forgiveness during the year. Ecology paid \$1,193,876 in administrative expenses to employees, vendors, and for indirect costs.

During fiscal year 2016, the CWSRF cash decreased by \$43,393,329. Borrowers made \$52,540,659 in total loan repayments, including principal and interest.. Ecology disbursed \$166,507,572 in loans during the year. The State Treasurer’s Office credited \$1,343,235 in interest to the CWSRF account. Ecology paid \$1,388,633 in administrative expenses to employees, vendors, and for indirect costs. EPA capitalization grant funds provided \$62,921,340 in cash, and the State of Washington provided \$6,000,000 in matching funds.

Table 2

Changes in Net Position

	Year Ended June 30,		
	2017	2016	
Revenues			
Program revenues:			
Loan interest income	\$ 14,002,134	\$ 12,287,200	\$ 12,226,612
General revenues:			
Investment income	1,183,495	1,343,235	791,376
Other Income	0	0	0
Total revenues	15,185,629	13,677,316	13,017,988
Expenses			
Program expenses:			
Administrative expenses	1,196,876	1,467,697	1,260,708
Principal forgiveness	1,963,274	2,138,737	402,625
Total expenses	3,160,150	3,606,434	1,663,333
Increase in net position			
before contributions	12,025,479	10,070,882	11,354,655
Capital contributions:			
EPA capitalization grant	29,829,027	62,921,340	18,176,224
State and other contributions	6,000,000	6,000,000	9,505,903
Subtotal capital contributions	\$ 35,829,027	\$ 68,921,340	\$ 27,682,127

Table 2 continued.

Change in net position	\$ 47,854,506	\$ 78,992,222	\$ 9,036,782
Net position - beginning of year	<u>967,218,001</u>	<u>888,225,779</u>	<u>849,188,997</u>
Net position - end of year	<u><u>\$1,015,072,507</u></u>	<u><u>\$ 967,218,001</u></u>	<u><u>\$ 888,225,779</u></u>

Income for fiscal year 2017

Net operating income of the CWSRF for SFY17 was \$12,805,259. 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 2017, the CWSRF earned \$29,829,027 in federal funds and \$6,000,000 in state matching funds.

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 SFY16 the CWSRF earned \$62,921,340 in federal funds and \$6,000,000 in state matching funds.

State matching funds

For SFYs 2016 and 2017, 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 \$6 million in SFY17, which was used in SFY 17 plus the remaining portion from SFY 16.

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 statute and rules to address emerging water quality financial assistance needs. SFY17 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 SFY17 (FFY16) the federal capitalization grant was approximately \$27.8 million (including match), which was lower 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

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 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.

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. 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 \$725,277,460 in capitalization grants from 1989 through June 30, 2017. The State match share for that awarded amount is \$131,426,227.

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.

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'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

For the year ended June 30, 2017, there were not any new standards adopted. For the year ended June 30, 2016 the Account adopted the provisions of GASB Statement No 72, *Fair Value Measurement and Application*, which do not have a material impact on the Account's financial statements.

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 \$1,963,274 and \$1,497,545 in forgivable principal loans during the years ended June 30, 2017 and 2016, 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 of 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 and 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes during the reporting period. Actual results could differ from those estimates.

Reclassifications

For comparability, certain 2016 amounts have been reclassified, where appropriate, to conform with the 2017 final statement presentation.

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, 2017, total Treasurer’s invested balance of the Treasury/Trust Fund Portfolio was \$6.9 billion. Details of the investments can be obtained from the State Treasurer’s Office.

The OST reports investments held for U.S. government and agency debt securities at fair value. OST categorizes the fair value measurements of these investments within the fair value hierarchy established by generally accepted accounting principles as Level 2 investments, as they are valued using observable inputs including quoted prices for similar securities and interest rates. All other investments are reported at amortized cost. The necessary disclosures for the State’s pooled investment program are included in the Comprehensive Annual Financial Report of the State of Washington.

	<u>Carrying Amount</u>	<u>Market Value</u>
Treasury/Trust Portfolio June 30, 2017	<u>\$144,853,771</u>	<u>\$144,853,771</u>
Treasury/Trust Portfolio June 30, 2016	<u>\$189,943,767</u>	<u>\$189,943,767</u>

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EXHIBIT 1: Notes to the Financial Statements for FY17**

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>2017</u>	<u>2016</u>
CWSRF Securities on loan:		
Fair Value	\$ 2,450,570	\$ 5,973,202
Cash Collateral held by CWSRF:		
Fair Value	2,512,129	6,113,251
Reported Value	2,512,129	6,113,251
OST Securities on loan:		
Fair Value	\$ 117,290,519	\$ 199,313,245
Cash Collateral held by OST:		
Fair Value	120,236,875	203,986,375
Reported Value	\$ 120,236,875	\$ 203,986,375

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, 2017 and 2016, investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$144,853,771 book value and \$117,290,519 fair value, and \$199,313,245 book value and \$189,943,767 fair value respectively.

On June 30, 2017 and 2016, 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 2017, 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 2017 were established at 1 percent for up to a five year-term and 2 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, 2017 and 2016, the Account had total binding commitments of \$96,417,748 and \$136,491,519, 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 \$725,277,460 and \$702,042,460 as of June 30, 2017 and 2016, respectively. Loan obligations as of June 30, 2017 and 2016, which include state matching requirements and principal and interest collected from repayment, were \$1,728,675,811 and 1,663,226,162 respectively.

Loans by Category

	Loan Authorized	Remaining Commitment	Receivable Balances
Completed projects	\$ 1,025,969,052		\$ 626,286,116
Projects in progress	374,954,471	129,868,927	<u>245,085,544</u>
Total			871,371,660
Payment requests in progress (Received as of June 30, 2017, but not yet paid)			
Less amount due in one year			<u>51,361,440</u>
Loans receivable, June 30, 2017 (Net of current maturities)			<u><u>\$ 820,010,220</u></u>

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EXHIBIT 1: Notes to the Financial Statements for FY17**

3. Loans Receivable (Continued)

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	\$ 972,663,678		\$ 589,002,185
Projects in progress	338,196,613	151,711,168	<u>186,485,445</u>
Total			775,487,630
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>\$ 727,904,896</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>
2018	\$ 11,906,845	\$51,361,440	\$ 63,268,285
2019	10,974,260	51,215,940	62,190,200
2020	10,057,047	50,716,956	60,774,003
2021	9,171,626	48,852,336	58,023,963
2022	8,314,640	47,446,004	55,760,644
2023-2027	29,201,289	203,969,060	233,170,349
2028-2032	12,689,462	121,175,510	133,864,972
2033-2037	6,075,350	51,548,872	57,624,221
2038-2042	-	-	-
Total	<u>\$ 98,390,520</u>	<u>\$ 626,286,116</u>	<u>\$ 724,676,636</u>
Loans not yet in repayment		<u>\$ 245,085,544</u>	
Total loans receivable		<u>\$ 871,371,660</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, 2017 and 2016 represent approximately 45.8 and 48.98 percent of the total loans receivable and are as follows:

<u>Borrower</u>	2017		2016	
	Authorized	Outstanding	Authorized	Outstanding
	Loan	Loan	Loan	Loan
	Amount	Balance	Amount	Balance
City of Tacoma	\$ 75,652	\$ 46,350	\$ 75,652	\$ 50,124
King County Department of Natural Resources	290,743	192,721	252,872	166,028
Lake Stevens Sewer District	53,457	44,056	53,457	44,187
Lott Wastewater Alliance	76,206	55,202	74,148	58,629
Pierce County	60,556	60,859	60,556	60,881
Total	\$ 556,614	\$ 399,188	\$ 516,685	\$ 379,849

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 \$725,277,460 in grants to the State, of which approximately \$725,047,991 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$131,404,350 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 FY17**

Year	Grant Award	Funds Drawn As of June 30, 2015 & Prior	Funds Drawn During Year Ended June 30, 2016	Funds Drawn As of June 30, 2016	Funds Drawn During Year Ended June 30, 2017	Funds Drawn As of June 30, 2017	Available for Loans as of June 30, 2017
1989-2009	\$476,311	\$476,311	\$ -	\$476,311		\$476,311	\$ -
2010	35,433	35,433	-	35,433		35,433	-
2011	25,680	25,680	-	25,680		25,680	-
2012	24,578	24,578		24,578		24,578	-
2013	23,247	2143	21,104	23,247		23,247	-
2014	24,383	-	24,383	24,383		24,383	-
2015	24,258		17,434	17,434	6,824	24,258	
2016	23,235				23,006	23,006	229
Total	657,125	564,145	62,921	627,066	23,006	656,896	229
2008-ARRA	68,152	68,152		68,152		68,152	-
Total	\$725,277	\$632,297	\$62,921	\$695,218	\$23,006	\$725,048	\$229

4. Capital Contributions (Continued)

(Figures are in Thousands)

	State Match Applied As of June 30, 2015	State Match Applied During Year Ended June 30, 2016	State Match Applied As of June 30, 2016	State Match Applied During Year Ended June 30, 2017	State Match Applied As of June 30, 2017
State Disbursed	\$ 112,832	\$ 12,588	\$ 125,420	\$ 5,984	\$ 131,404

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, 2017</u>	<u>June 30, 2016</u>
Administrative fee collected	\$ 1,848,760	\$ 1,217,791
Interest on admin fee collected	<u>20,202</u>	<u>9,156</u>
	<u>\$ 1,868,962</u>	<u>\$ 1,226,947</u>
Operating expenses incurred	<u>\$ - 256,344</u>	<u>\$ 26,311</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, 2017 and 2016, Comprehensive Annual Financial Reports.

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.

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 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, 2016, the investment rate of return on investments was 8.0 percent over the past three years and 7.5 percent over the past five years.

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, 2016, 2015, 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 2017 the employer's contribution was \$888 and the employee's contribution ranged from \$25 to \$147 depending on plan. 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 www.ofm.wa.gov/cafr/2016/CAFR16.pdf

Contributions, annual, other post employment benefit costs, and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2016, 2015, 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.

Information for fiscal year 2017 was not available at the time of this report.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
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EXHIBIT 2: Disbursements and Accruals**

	SFY		
	2017	Federal	State-Match
2017 DISBURSEMENTS FOR LOANS	\$34,601,273	\$28,834,169	\$5,767,104
2017 DISBURSEMENTS FOR ADMIN	\$ 1,193,876	\$ 994,857	\$ 199,019
TOTAL DISBURSEMENTS	\$35,795,149	\$29,829,026	\$5,966,123
2017 CASH DRAW FROM CAPITALIZATION GRANTS	(\$29,829,026)		
2017 STATE MATCH (20% of CASH DRAWS)	(\$5,966,123)		
2017 100% STATE FUNDS DISBURSEMENTS	\$111,370,825		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$147,165,974		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.33%		
ADMIN CALCULATION	3.34%		

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SFY 17 (7/1/16-6/30/17)
EXHIBIT 3: Comparative Statement of Net Position**

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 144,853,771	\$ 189,943,767
Collateral Held/Security Lending Agreements	2,512,129	6,113,251
Receivables:		
Due from federal government	110,274	106,909
Loan interest	2,034,153	2,282,380
Due from other funds	126,642	169,343
Loans receivable:		
Current portion	51,361,440	47,582,734
	<hr/>	<hr/>
Total current assets	\$ 200,998,409	\$ 246,198,384
 OTHER ASSETS		
Loans receivable:		
Noncurrent	819,937,656	727,904,896
Total other assets	<hr/>	<hr/>
	819,937,656	727,904,896
 TOTAL ASSETS	 <hr/>	 <hr/>
	1,020,936,065	974,103,280
 LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	3,332,273	753,019
Due to other funds	19,155	19,009
Due to other Agencies		
Obligation Under Security Lending Agreement	2,512,129	6,113,251
Total current liabilities	<hr/>	<hr/>
	5,863,557	6,885,279
 NET POSITION		
Restricted	<hr/>	<hr/>
	\$1,015,072,507	\$ 967,218,001
Total net position	<hr/>	<hr/>
	\$1,020,936,064	\$ 967,218,001

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SFY 17 (7/1/16-6/30/17)
EXHIBIT 4: Comparative Statement of Revenues, Expenses, and Changes In Net Position**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
Loan interest income	14,002,134	12,287,200
Total operating revenue	<u>14,002,134</u>	<u>12,287,200</u>
OPERATING EXPENSES		
Personnel services	785,467	951,340
Other expenses	411,409	516,357
Total operating expenses	<u>1,196,876</u>	<u>1,467,697</u>
INCOME FROM OPERATIONS	<u>12,805,258</u>	<u>10,819,503</u>
NONOPERATING REVENUE (EXPENSE)		
Net investment income	1,183,495	1,343,235
Prior Period Adj & Loan Services		46,881
Loan Principal Forgiveness expense	(1,963,274)	(2,138,737)
Total nonoperating revenue (expense)	<u>(779,779)</u>	<u>(748,621)</u>
INCOME BEFORE CONTRIBUTIONS	<u>12,025,479</u>	<u>10,070,882</u>
CONTRIBUTIONS		
EPA capitalization grant	29,829,027	62,921,340
State match revenue	6,000,000	6,000,000
Total contributions	<u>35,829,027</u>	<u>68,921,340</u>
CHANGE IN NET POSITION	47,854,506	78,992,222
NET POSITION - BEGINNING OF YEAR	<u>967,218,001</u>	<u>888,225,779</u>
NET POSITION - END OF YEAR	<u>\$1,015,072,507</u>	<u>\$ 967,218,001</u>

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

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to employees and vendors	\$ 1,794,525	\$ (1,388,635)
Cash flows provided (required) by operating activities	<u>1,794,525</u>	<u>(1,388,635)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA	29,829,027	062,030,483
Funds received from the state of Washington	6,011,149	(3,795,429)
Loan Services		46,881
Cash flows provided by noncapital financing activities	<u>35,840,176</u>	<u>58,281,933</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Received from Interest on Loans	\$ 14,250,361	\$12,337,049
Loans Disbursed	(144,049,167)	(166,507,572)
Principal received on Loans Receivable	47,583,289	52,540,660
Net investment income received	<u>1,183,495</u>	<u>1,343,235</u>
Net Cash Provided (Required) by Investing Activities	<u>(81,032,022)</u>	<u>(100,286,628)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(43,397,321)	(43,393,329)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>189,943,768</u>	<u>233,337,097</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 146,546,448</u>	<u>\$ 189,943,768</u>
Reconciliation of operating income to net cash required by operating activities		
Income from Operations	\$ 10,965,904	\$ 10,819,503
Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:		
Cash Received from Interest on Loans	(12,089,592)	(12,337,050)
Loans Disbursed	28,296,843	166,507,572
Principal Received on Loans Receivable	(47,266,135)	(52,540,660)

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

EXHIBIT 5. Continued

**Effect of Changes in Operating Assets and
Liabilities:**

Loan Interest Receivable	248,227	49,849
Due to Other Funds	42,701	9,531
Loans Receivable	(95,811,466)	(113,966,913)
Accounts Payable and Accrued Expenses	2,568,252	69,531
Due to other funds	0	0
Net Cash Provided (Required) by		
Operating Activities	<u>\$ (113,045,266)</u>	<u>\$ (1,388,636)</u>