



# Annual Report

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

For State Fiscal Year 2019  
July 1, 2018 - June 30, 2019

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**Annual Report**  
**Washington State Clean Water Revolving Fund**  
**(CWSRF)**

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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, 2019, Ecology's CWSRF program had received a total \$776,245,460 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 \$1,932,020,940.

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 2019 (SFY19) 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 SFY19 (July 1, 2018, through June 30, 2019).

The SFY19 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, 2017. 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 2019 Water Quality Financial Assistance* Publication #17-10-019. 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 48 applications for about \$349 M in loans for the SFY19 funding.

Ecology used the Federal Fiscal Year (FFY) 2018 appropriation of \$27,912,000 as the capitalization grant for the SFY19 IUP. Ecology set the SFY19 CWSRF program capacity at \$115 M. In addition to the EPA capitalization grant, CWSRF program funds came from a required state match of 20 percent of the grant (\$5,582,400), principal repayments, and interest and investment earnings.

For SFY19, Ecology issued binding commitments for 27 projects totaling \$126,701,170. The weighted interest for these agreements is 1.9499 percent (59.26 percent of the market rate for tax-exempt municipal bonds). Of these binding commitments, \$4,069,206 was provided in the form of forgivable principal (loans that do not have to be repaid). The FFY18 capitalization grant (cap grant) set a minimum of \$2,791,200 and maximum of \$8,373,600 for forgivable principal loans.

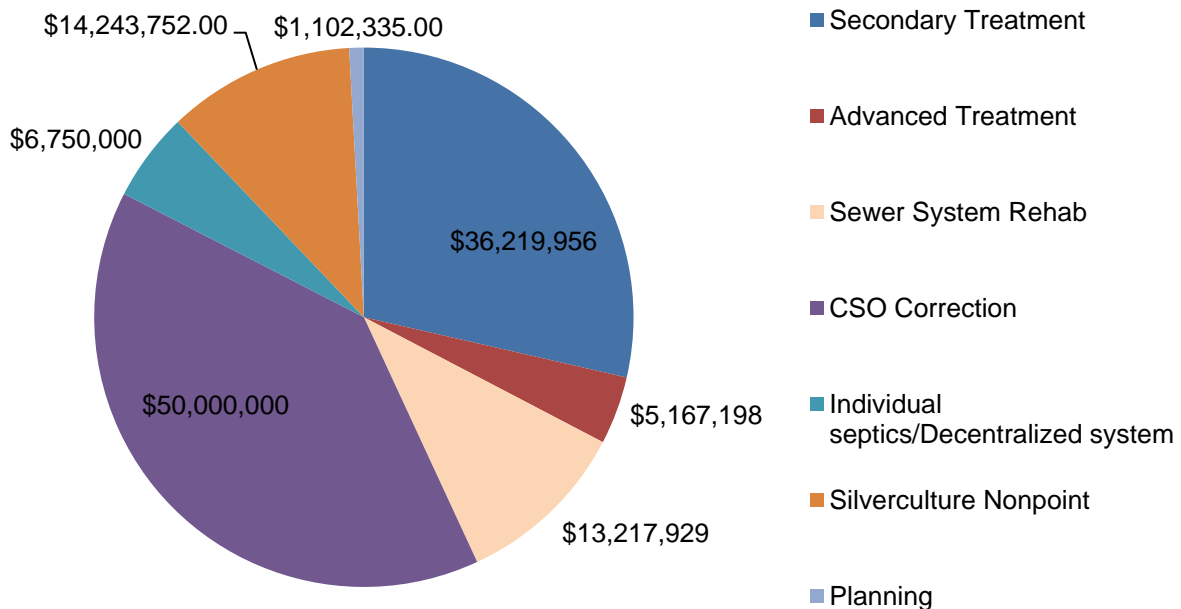
The SFY18 capitalization grant required Ecology to award 10 percent of the federal capacity grant (\$2,791,200) to projects or project elements that fit within one or more of the Green Project Reserve (GPR) categories. These categories include:

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

Ecology awarded \$20,993,752 or 75 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 83 percent of the funds in SFY19 are being used for Clean Water Act (CWA) Section 212 projects (wastewater projects) and 17 percent for CWA Section 319 (nonpoint activity projects). 66 percent are categorized as CWA Section 320 projects that are within the National Estuary Program boundary.

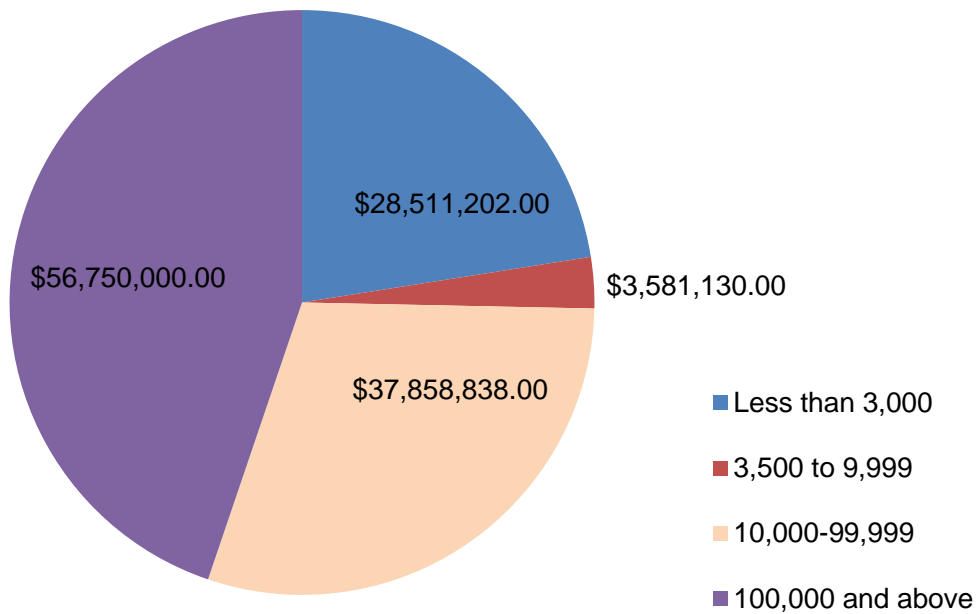
### Assistance by Needs Category





The following graph shows the assistance provided across population of recipient categories. Over half or 55 percent of the CWSRF funds supported projects in communities within the population category of 25,000 or below.

### Assistance by Population



# 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.

The Water Pollution Control Revolving Admin (WPCRA) account was established in 2013. This account is funded from an administrative charge of 1% charged on the declining principal of loans that went into repayment after the new rule was effective December 21, 2013.

## 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 mission of the WQP and the CWSRF is to protect and restore Washington's waters to sustain healthy watersheds and communities 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), the state funded Stormwater Financial Assistance Program, and the CWA Section 319 Nonpoint Source Grant Program (Section 319). Ecology makes every attempt to integrate and streamline the three funding programs. This approach provides significant program savings and efficiencies for Ecology, its clients, and its stakeholders.

Ecology manages the Water Pollution Control Revolving Admin (WPCRA) account. This account is dedicated for support of program administrative activities to manage the CWSRF program and CWSRF funded projects.

## **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 FFY18 capitalization grant is administered in the SFY19 funding cycle.

## **What is in this report**

This report discusses how Ecology administered the CWSRF FFY18 capitalization grant, state match, and principal and interest repayments during SFY19. 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 FFY18 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY19.
- Presents a Management Discussion and Analysis section providing CWSRF financial statements.
- Includes several exhibits containing the unaudited financial statements of the CWSRF for SFY19.

# 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 SFY19, Ecology organized and facilitated three meetings with the Financial Assistance Council (FAC) to review and discuss ongoing and emerging CWSRF program issues.
  - Ecology held a meeting 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 SFY19 Ecology developed a Draft IUP for SFY20 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 SFY19 Ecology offered 70 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 SFY19 Ecology offered approximately 5 percent of the CWSRF funds to preconstruction projects in small communities. Ecology offered approximately 70 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 SFY19, Ecology identified a reduced SFAP grant match for 1 stormwater project.
- 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.

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

- 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

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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 SFY19 cycle across the state on August 16, 17, 23, and 24, 2017.
- 4) Conduct two annual funding recipient workshops.
  - Ecology held recipient training workshops in Tacoma and Moses Lake in July 2018 for the SFY19 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](http://www.ecy.wa.gov/programs/wq/funding/funding.html)
  - Ecology regularly updates the grant and loan funding website ([www.ecy.wa.gov/programs/wq/funding/funding.html](http://www.ecy.wa.gov/programs/wq/funding/funding.html)) to keep the public and stakeholders aware of funding and training opportunities and to provide them with related forms and publications.
- 6) Contract with the Rural Community Assistance Corporation (RCAC) to provide special technical assistance for small communities.
- 7) Provide directed technical assistance to small hardship communities with wastewater facility needs through an interagency agreement with Commerce to fund the Small Communities Initiative (SCI).

- 8) Assist with planning and participate in the annual Infrastructure Assistance Coordinating Council (IACC) conference. Ecology is an IACC member, and 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 22-24, 2018 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](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 80 percent, 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 SFY19 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).
    - 2.6 percent for a 30-year loan (80 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, “**Perpetuity** means the department will seek to manage the revolving fund account so that available future funds at least match the rate of growth of *Engineering News-Record* “Construction Cost Index” for the City of Seattle.”
- 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 intercept any potential problems.
- 5) Coordinate with advisory groups, councils and other funding agencies and programs.
- Ecology met with FAC in July 18, 2018, November 15, 2018, and March 27, 2019 to review and discuss ongoing and emerging CWSRF and combined financial assistance program issues.
  - Ecology conducted one internal CWSRF Management Oversight Committee meeting November 26, 2018 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 that 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 entered into binding commitments for 27 CWSRF agreements totaling \$126,701,170 in SFY19. Table 1 lists the four projects totaling \$2,385,048 that declined their funding offer. Table 2 provides information on agreements signed or binding commitments made in SFY19.

**Table 1: Declined Funding Offers**

Applicant	Application Number	Amount
Bellingham city of - Public Works Department	WQC-2019-BellPW-00117	\$ (208,295)
Bellingham city of - Public Works Department	WQC-2019-BellPW-00118	\$ (1,662,515)
Bellingham city of - Public Works Department	WQC-2019-BellPW-00121	\$ (135,438)
Mabton city of	WQC-2019-Mabton-00128	\$ (378,800)
<b>Total</b>	<b>4 projects</b>	<b>\$ (2,385,048)</b>

**Table 2: CWSRF Agreements/Binding Commitments in SFY19**

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs Category (EAGL)	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Aberdeen city of - Public Works	WQC-2019-AberPW-00098	EL190331 /EF190332	Aberdeen WWTF Disinfection Improvements, Design & Construction	Planning/Design	\$ 151,566	\$ 75,783	\$ 75,783	2.0%	20	4/17/2019
Aberdeen city of - Public Works	WQC-2019-AberPW-00099	EL190338 /EF190339	Aberdeen Regional Wastewater Facilities Plan	Planning/Design	\$ 378,000	\$ 189,000	\$ 189,000	2.0%	20	4/18/2019
Craft3	WQC-2019-CICoPH-00191		Regional Clean Water Loan Program expansion to improve water quality.	VII-L - Decentralized Sewage Treatment	\$ 6,000,000	\$ 6,000,000		1.0%	5	6/6/2019
Dayton, City of	WQC-2019-Dayton-00111	EL190390 /EF190391	Wastewater Treatment Plant Design	Planning/Design	\$ 990,000	\$ 495,000	\$495,000	2.0%	20	6/27/2019
Endicott town of	WQC-2019-Endico-00161	EL190451 /EF190452	Town of Endicott Facilities Plan	Planning/Design	\$ 156,800	\$ 78,400	\$ 78,400	2.0%	20	6/21/2019
Ferndale city of	WQC-2019-Fernda-00022	EL190157	Design and Construction of Ferndale Wastewater Treatment Plant	I - Secondary Treatment	\$ 28,557,000	\$ 28,557,000		2.0%	20	3/26/2019
Friday Harbor town of	WQC-2019-FriHar-00028	EL190466 /EF190467	Friday Harbor Sewer Outfall Replacement	Planning/Design	\$ 184,260	\$ 92,130	\$ 92,130	2.0%	20	7/5/2019
Friday Harbor town of	WQC-2019-FriHar-00085	EL190462 /EF190463	Inflow and Infiltration Study	Planning/Design	\$ 124,435	\$ 62,218	\$ 62,218	2.0%	20	7/5/2019
Garfield, Town of	WQC-2019-Garfield-00049	EL190419 /EF190420	Garfield Sewer Facilities Plan	Planning/Design	\$ 167,450	\$ 83,725	\$ 83,725	1.0%	5	7/1/2019
Grandview city of	WQC-2019-Grandview-00092	EL190173 /EF190174	Sanitary Sewer Trunk Main Replacement	III-B - Sewer System Rehabilitation	\$ 601,000	\$ 300,500	\$ 300,500	2.0%	20	2/5/2019

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs Category (EAGL)	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
King County - Natural Resources and Parks Department	WQC-2019-KCoNRP-00040	EL190346	Georgetown Wet Weather Treatment Station (GWWTS)	V - CSO Correction	\$ 11,543,000	\$ 11,543,000		2.6%	30	6/19/2019
King County - Natural Resources and Parks Department	WQC-2019-KCoNRP-00170	EL190366 /EL190365	Joint Ship Canal Water Quality CSO Control	V - CSO Correction	\$ 13,457,000	\$ 13,457,000		2.6%	30	6/17/2019
Long Beach city of	WQC-2019-LongBe-00060	EL190177 / EF190178	Regional Biosolids Treatment Facility	II - Advanced Treatment	\$ 5,167,198	\$ 4,891,198	\$ 276,000	1.9%	20	12/10/2018
Lummi Tribal Sewer and Water District	WQC-2019-LuTSWD-00155	EL190329 /EF190330	Gooseberry WWTP Step 2: Design	Planning/Design	\$ 1,012,000	\$ 506,000	\$ 506,000	2.0%	20	6/27/2019
Mattawa city of	WQC-2019-Mattaw-00207	EL190376 /EF190377	Mattawa Wastewater Treatment Facility Improvements	I - Secondary Treatment	\$ 2,569,130	\$ 2,419,130	\$ 150,000	1.5%	20	5/3/2019
Nisqually Indian Tribe	WQC-2019-NisqIT-00217		Mashel River and Ohop Creek Water-Quality Protection	VII-C - Silviculture nonpoint source pollution control activities	\$ 14,243,752	\$ 14,243,752		1.3%	20	6/27/2019
Port Orchard city of - Public Works Department	WQC-2019-PoOrPW-00025	EL190266	Marina Pump Station	III-B - Sewer System Rehabilitation	\$ 4,100,000	\$ 4,100,000		2.0%	20	3/8/2019
Republic city of - Public Works	WQC-2019-RepcPW-00101	EL190315 /EF190316	Republic President's Bowl I/I Reduction Plan, Headworks & Effluent Pumping	Planning/Design	\$ 144,650	\$ 72,325	\$ 72,325	1.0%	5	4/24/2019

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs Category (EAGL)	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Rosalia, Town of	WQC-2019-RosWtr-00142	EL190311 / EF190312	Town of Rosalia Wastewater Collection System Improvements	III-B - Sewer System Rehabilitation	\$ 3,967,653	\$ 3,656,353	\$ 311,300	1.8%	20	2/19/2019
Seattle city of - Public Utilities Department	WQC-2019-SeaPUD-00050	EL190167	Ship Canal Water Quality Project	V - CSO Correction	\$ 25,000,000	\$ 25,000,000		2.0%	20	6/17/2019
Skagit County - Health Department	WQC-2019-SkCoHD-00127	EL190160	Skagit County Non-point Septic Repair Fund	VII-L - Decentralized Sewage Treatment	\$ 750,000	\$ 750,000		2.0%	20	2/19/2019
Stevenson city of - Public Works	WQC-2019-StevPW-00044	EL190303 /EF190304	Stevenson Clean Water Facility and Collection Improvement—	Planning/Design	\$ 1,985,000	\$ 1,410,000	\$ 575,000	2.0%	20	3/15/2019
St John town of	WQC-2019-StJohn-00136	EL190275 /EF190276	St. John Wastewater Facilities Plan	Planning/Design	\$ 131,000	\$ 65,500	\$ 65,500	1.0%	5	2/5/2019
Toppenish city of - Public Works Department	WQC-2019-Toppen-00182	EL190340 /EF190341	Sewer System Improvements Phase II	III-B - Sewer System Rehabilitation	\$ 4,071,272	\$ 3,760,522	\$ 310,750	1.4%	20	3/15/2019
Vader, city of	WQC-2019-Vaderc-00073	EL190244 /EF190245	City of Vader WW Treatment Upgrade Design	Planning/Design	\$ 686,000	\$ 343,000	\$ 343,000	2.0%	20	3/12/2019
Waterville town of	WQC-2019-waterv-00081	EL190191 /EF190192	Collection System Improvements	Planning/Design	\$ 85,000	\$ 42,500	\$ 42,500	2.0%	20	1/7/2019
Westport city of	WQC-2019-Westpo-00178	EL190355 /EF190357	Pump Station 12 Upgrades	III-B - Sewer System Rehabilitation	\$ 478,004	\$ 437,929	\$ 40,075	1.4%	20	5/2/2019
<b>Total Binding Commitments</b>					<b>\$126,701,170</b>	<b>\$122,631,965</b>	<b>\$ 4,069,206</b>			

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 SFY19.

**Table 3: Binding Commitments with Respect to Federal Grant Payments in SFY19**

Capitalization Grant Received During SFY19	\$27,912,000
Binding Commitments Required Within One Year of Receipt	\$33,494,400
Binding Commitments at the End of SFY19	\$126,701,170
<b>Percent of Capitalization Grant under Binding Commitment at the End of SFY19</b>	<b>454%</b>

## 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 SFY19 in addition to the cumulative loan obligations through SFY19. The table shows that Ecology has committed 99.53% percent of the cumulative funds available through SFY19.

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

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY19)	\$ 708,093,560	\$ 68,151,900	\$ 776,245,460
State Match (cumulative through SFY19)	141,619,827		141,619,827
Principal and Interest Collected (cumulative through SFY19)	1,010,188,494		1,010,188,494
State Treasurer's Office Interest (cumulative through SFY19/cash basis)	42,298,456		42,298,456
Administration 4% (cumulative through SFY19)	(26,435,638)	(2,726,076)	(29,161,714)
Total Funds (cumulative through SFY19)	1,875,764,699	65,425,824	1,941,190,523
Loan Obligations (cumulative through SFY19)	\$1,866,571,291	\$ 65,449,649	\$ 1,932,020,940
<b>Loans as % of Funds Available</b>			<b>99.53 %</b>

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

## **State match**

The 2017-19 Biennial budget authorized the State Treasurer to transfer \$10.2 million for CWSRF State match. The legislation authorized the match as a Treasurer's cash transfer from the State Taxable Building Construction account into account 727. At the beginning of SFY18 and SFY19, the State Treasurer deposited \$4.6 million and \$5.6 million respectively into the CWSRF account. These funds are sufficient to meet the match requirements for SFY18 and SFY19.

## Green Project Reserve

The FFY18 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 FFY18 grant totaled \$27,912,000 which set the GPR requirement at \$27,912,000.

In SFY19 Ecology made specific offers of \$20,993,752 M to the eight GPR-eligible projects (Table 5). These funds equal seventy five percent of the cap grant, meeting the ten percent requirement.

**Table 5: Green Project Reserve (GPR) Offers in SFY19**

Application Number	Agreement Number	Recipient Name	Project Title	GPR Category	Standard Loan Amount	Forgivable Principal Loan Amount
WQC-2019-CiCoPH-00191		Clark County - Public Health Department	Regional Clean Water Loan Program expansion to improve water quality.	4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing onsite wastewater systems.	\$ 6,000,000	
WQC-2019-NisqIT-00217		Nisqually Indian Tribe	Mashel River and Ohop Creek Water-Quality Protection	1.2-7 Establishment or restoration of permanent riparian buffers, floodplains, wetlands and other natural features	\$ 14,243,752	
WQC-2019-SkCoHD-00127	EL190160	Skagit County - Health Department	Skagit County Non-point Septic Repair Fund	4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing onsite wastewater systems.	\$ 750,000	
			<b>Total</b>	<b>\$20,993,752</b>	<b>\$20,993,752</b>	<b>\$-</b>

## Additional subsidization (ASR) and sustainability of funded projects

The FFY18 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 FFY18 grant totaled \$27,912,000 which set the ASR requirement with a minimum of \$2,791,200 and maximum of \$8,373,600.



Ecology meets the requirement by providing forgivable principal loans to wastewater treatment preconstruction projects that demonstrate financial hardship and to GPR-eligible projects.

In SFY19 Ecology provided forgivable principal loans to 33 applicants totaling \$7,208,098, exceeding the ten percent requirement. Table 6 summarizes the recipients that received forgivable principal loans for their projects.

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 FFY10 (CS-53000110), FFY11 (CS-53000111) and FFY12 (CS-53000112) capitalization grants. By the end of SFY19 there were still open agreements for the remaining capitalization grants so Ecology was unable to verify compliance for FFY13, FFY14, FFY15, FFY16, FFY17 and FFY18 until all the agreements are finished spending out and closed.

▪ **Table 6: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY19**

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afforded the project without additional subsidization?
WQC-2019-AberPW-00098	EF190332	Aberdeen city of - Public Works	Aberdeen WWTF Disinfection Improvements, Design & Construction	\$ 75,783.00	Sustainable Planning and Design	Yes
WQC-2019-AberPW-00099	EF190339	Aberdeen city of - Public Works	Aberdeen Regional Wastewater Facilities Plan	\$ 189,000.00	Sustainable Planning and Design	Yes
WQC-2019-Dayton-00111	EF190391	Dayton, City of	Wastewater Treatment Plant Design	\$ 495,000.00	Sustainable Planning and Design	Yes
WQC-2019-Endico-00161	EF190452	Endicott town of	Town of Endicott Facilities Plan	\$ 78,400.00	Sustainable Planning and Design	Yes
WQC-2019-FriHar-00028	EF190467	Friday Harbor town of	Friday Harbor Sewer Outfall Replacement	\$ 92,130.00	Sustainable Planning and Design	Yes

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afforded the project without additional subsidization?
WQC-2019-FriHar-00085	EF190463	Friday Harbor town of	Inflow and Infiltration Study	\$ 62,217.50	Sustainable Planning and Design	Yes
WQC-2019-Garfield-00049	EF190420	Garfield, Town of	Garfield Sewer Facilities Plan	\$ 83,725.00	Sustainable Planning and Design	Yes
WQC-2019-Grandview-00092	EF190174	Grandview city of	Sanitary Sewer Trunk Main Replacement	\$ 300,500.00	Sustainable Planning and Design	Yes
WQC-2019-LongBe-00060	EF190178	Long Beach city of	Regional Biosolids Treatment Facility	\$ 276,000.00	Sustainable Planning and Design	No
WQC-2019-LuTSWD-00155	EF190330	Lummi Tribal Sewer and Water District	Gooseberry WWTP Step 2: Design	\$ 506,000.00	Sustainable Planning and Design	Yes
WQC-2019-Mattaw-00207	EF190377	Mattawa city of	Mattawa Wastewater Treatment Facility Improvements	\$ 150,000.00	Sustainable Planning and Design	Yes
WQC-2019-RepcPW-00101	EF190316	Republic city of - Public Works	Republic President's Bowl I/I Reduction Plan, Headworks & Effluent Pumping	\$ 72,325.00	Sustainable Planning and Design	Yes
WQC-2019-Rosalia Water-00142	EF190312	Rosalia, Town of	Town of Rosalia Wastewater Collection System Improvements	\$ 311,300.00	Sustainable Planning and Design	No
WQC-2019-StevPW-00044	EF190304	Stevenson city of - Public Works	Stevenson Clean Water Facility and Collection Improvement— Design Phase	\$ 575,000.00	Sustainable Planning and Design	Yes
WQC-2019-StJohn-00136	EF190276	St John town of	St. John Wastewater Facilities Plan	\$ 65,500.00	Sustainable Planning and Design	Yes
WQC-2019-Toppen-00182	EF190341	Toppenish city of - Public Works Department	Sewer System Improvements Phase II	\$ 310,750.00	Sustainable Planning and Design	No
WQC-2019-Vaderc-00073	EF190245	Vader, city of	City of Vader WW Treatment Upgrade Design	\$ 343,000.00	Sustainable Planning and Design	Yes

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afforded the project without additional subsidization?
WQC-2019-waterv-00081	EF190192	Waterville town of	Collection System Improvements	\$ 42,500.00	Sustainable Planning and Design	Yes
WQC-2019-Westpo-00178	EF190357	Westport city of	Pump Station 12 Upgrades	\$ 40,075.00	Sustainable Planning and Design	No
WQC-2019-FriHar-00085	EF190463	Friday Harbor town of	Inflow and Infiltration Study	\$ 62,217.50	Sustainable Planning and Design	No
WQC-2019-Garfield-00049	EF190420	Garfield, Town of	Garfield Sewer Facilities Plan	\$ 83,725.00	Sustainable Planning and Design	Yes
WQC-2019-Grandview-00092	EF190174	Grandview city of	Sanitary Sewer Trunk Main Replacement	\$ 300,500.00	Sustainable Planning and Design	Yes
WQC-2019-LongBe-00060	EF190178	Long Beach city of	Regional Biosolids Treatment Facility	\$ 276,000.00	Sustainable Planning and Design	Yes
WQC-2019-LuTSWD-00155	EF190330	Lummi Tribal Sewer and Water District	Gooseberry WWTP Step 2: Design	\$ 506,000.00	Sustainable Planning and Design	Yes
WQC-2019-Mattaw-00207	EF190377	Mattawa city of	Mattawa Wastewater Treatment Facility Improvements	\$ 150,000.00	Sustainable Planning and Design	No
WQC-2019-RepcPW-00101	EF190316	Republic city of - Public Works	Republic President's Bowl I/I Reduction Plan, Headworks & Effluent Pumping	\$ 72,325.00	Sustainable Planning and Design	Yes
WQC-2019-Rosalia Water-00142	EF190312	Rosalia, Town of	Town of Rosalia Wastewater Collection System Improvements	\$ 311,300.00	Sustainable Planning and Design	Yes
WQC-2019-StevPW-00044	EF190304	Stevenson city of - Public Works	Stevenson Clean Water Facility and Collection Improvement— Design Phase	\$ 575,000.00	Sustainable Planning and Design	Yes
WQC-2019-StJohn-00136	EF190276	St John town of	St. John Wastewater Facilities Plan	\$ 65,500.00	Sustainable Planning and Design	Yes

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afforded the project without additional subsidization?
WQC-2019-Toppen-00182	EF190341	Toppenish city of - Public Works Department	Sewer System Improvements Phase II	\$ 310,750.00	Sustainable Planning and Design	Yes
WQC-2019-Vaderc-00073	EF190245	Vader, city of	City of Vader WW Treatment Upgrade Design	\$ 343,000.00	Sustainable Planning and Design	Yes
WQC-2019-waterv-00081	EF190192	Waterville town of	Collection System Improvements	\$ 42,500.00	Sustainable Planning and Design	Yes
WQC-2019-Westpo-00178	EF190357	Westport city of	Pump Station 12 Upgrades	\$ 40,075.00	Sustainable Planning and Design	Yes
				<b>\$ 7,208,098.00</b>		

## Assistance to hardship communities

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

**Table 7: Hardship Assistance Provided in SFY19**

Application Number	Loan Number	Recipient	Project Title	Hardship Level	Standard Loan	Interest Rate	Term	Forgivable Principal Loan	Centennial Grant
WQC-2019-FriHar-00028	EL190466	Friday Harbor town of	Friday Harbor Sewer Outfall Replacement	Moderate	\$ 92,130	2.0%	20	\$ 92,130	
WQC-2019-LongBe-00060	EL190177	Long Beach city of	Regional Biosolids Treatment Facility	Elevated	\$ 4,891,198	1.9%	20	\$ 276,000	\$ 1,832,802
WQC-2019-Mattaw-00207	EL190376	Mattawa city of	Mattawa Wastewater Treatment Facility	Moderate	\$ 2,419,130	1.5%	20	\$ 150,000	\$ 1,137,870
WQC-2019-RosWtr-00142	EL190311	Rosalia, Town of	Town of Rosalia Wastewater Collection	Elevated	\$ 3,656,353	1.8%	20	\$ 311,300	\$ 2,926,921
WQC-2019-Toppen-00182	EL190340	Toppenish city of Public Works	Sewer System Improvements Phase II	Moderate	\$ 3,760,522	1.4%	20	\$ 310,750	\$ 2,299,228
WQC-2019-Westpo-00178	EL190355	Westport city of	Pump Station 12 Upgrades	Moderate	\$ 437,929	1.4%	20	\$ 40,075	\$ 248,496
					\$ 15,257,262			\$ 1,180,255	\$ 8,445,317

## 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 SFY19.

**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	99.2	26	99.2		26	2.6	0	24
Records with Benefits Data	99.2	26	99.2	39.3	26	2.6	0	24
Impacting Human Health	74.1	17	74.1	29.3	17	2.6	0	15
	75%	65%	75%		65%	35,088*		63%
With Impaired Waterbody			65.4	26.5	16	2.6	0	14
			66%		62%	40,217*		58%
	Loans		Projects			Borrowers		
	Assistance Dollars (millions)	Loan Count	Assistance Dollars (millions)	Subsidy Dollars (millions)	Project Count	Facility Population (millions)	Facility Flow (MGD)	Borrower Count
With Water Body Meeting Standards			5.2	2.4	6			
To Improve Water Quality			76.6	30.7	16			
To Maintain Water Quality			22.6	8.7	10			
To Achieve Compliance			50.3	20.7	13			
To Maintain Compliance			42.9	17.9	12			

## 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, 2019, the total administrative charge deposited into the Administrative Account (564) totaled \$11,095,096. Ecology began using Account (564) to pay for administrative charges totaling \$3,562,084 in SFY19. 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.

While Account (564) contains sufficient funds to cover CWSRF program administration, Ecology's plan was to not request the full 4% of the Capitalization Grant as allowed by the CWA beginning. The eHub project funds appropriated in the 17-19 biennial budget were not spent out of Account (564) by June 30, 2019 and were unavailable to the project after that date. Ecology submitted an amendment request to allow the use of the 4% administration funds for the FFY19 capitalization grant for \$462,675.

EPA allows States to "bank" any unused administration funds if it is documented in the IUP and Annual Report. This would allow Ecology to use Account (727) for administration expenses up to the banked amount in the future if needed. The table below shows the cumulative banked administrative expenses as of the end of SFY19.

**Table 9: Cumulative Banked Administration Expenses from Capitalization Grants**

Federal Funds Received (Cumulative Projected Through SFY19)	\$776,245,460
Administration Expenses Allowed (Cumulative Through SFY19)	\$ 31,050,934
Administration Expended out of Account 727 (Cumulative Through SFY19)	\$ 29,161,714
Administration Expenses Banked (Cumulative Through SFY19)	\$1,889,220

### 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 SFY19, 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 SFY19, Ecology was able to expend and close all the capitalization grants except the administration funds. The remaining balances are zero for FFY17 and for FFY18. There is \$20,903,423 remaining balance in FFY19 which includes the match.

## **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 SFY19, the cash balance was \$160M. The fund account increased from SFY18 due to a decrease in project disbursements. This was the result of a delay in the state capital budget getting passed, so projects were not signed for our SFY18 and SFY19 agreements until as late as January of 2019. 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.
- Single Audit Act (SAA)

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. Between SFY16 and SFY18, Ecology identified equivalency projects by type to allow predictability for our recipients. We identified any wastewater facility Step 3 (Construction) and Step 4 (Design and Construction) projects for recipients with a population of 25,000 or greater. During our Single Audit for SFY18, Ecology



was told by the State auditor that there was a problem with identifying projects totaling more than the capitalization grant.

Ecology began identifying projects totaling closer to the amount of capitalization grant by selecting one or two wastewater facility projects for recipients with a population of 25,000 or more. We also made it clearer in our agreements which loan dollars are Federal Equivalency funds. Table 10 lists the SFY19 projects who met these requirements.

**Table 10: SFY19 Equivalency Projects**

<b>Recipient Name</b>	<b>Application Number</b>	<b>Agreement Number</b>	<b>Final Loan Amount</b>	<b>A/E Procurement Included</b>
King County - Natural Resources and Parks Department	WQC-2019-KCoNRP-00170	EL190365	\$ 2,912,000	Yes
Seattle city of - Public Utilities Department	WQC-2019-SeaPUD-00050	EL190167	\$ 25,000,000	Yes
		<b>Total</b>	<b>\$ 27,912,000</b>	

## **eHub (Ecology Helping Unify Business)**

In 2017, Ecology began a new project, the Integrated Revenue Management System (IRMS), to replace our outdated, custom-built revenue tracking systems with modern technology. This includes replacing our current Loan tracking system ELTs. In SFY19, the name of the project was changed to eHub (Ecology Helping Unify Business).

Ecology has been working with AKA as our vendor partner to implement Microsoft Dynamics 365 (MS Dynamics) as our platform (technology).

Any process change reaps many benefits when moving from outdated systems, cumbersome manual processes, and paper-based tracking. Some of benefits we expect from implementing MS Dynamics are:

- Eliminating desktop-based financial applications that are less secure and more prone to data loss.
- Simplifying the user experience.
- Improving business process governance, standardization, and security.
- Simplifying disaster recovery of mission critical financial systems.
- Driving digitization of current paper processes.
- Enabling faster business process changes required by legislative mandate and policy and rule changes.

The project is being funded with \$2.152 million dollars of program contributions including:

- Cost Allocation
- Water Quality- Water Pollution Control Admin Fund (564)
  - Used for Loan Replacement only, not other functionality
- Solid Waste Management-Biosolids Permit Fund
- Hazardous Waste and Toxics Reduction-State Toxics Fund

The amount expended on the project through June 30, 2019 was \$1.6M. The project is 74% complete and scheduled to go-live April 1, 2020.

# 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) and Water Pollution Control Revolving Admin (WPCRA) for the years ended June 30, 2019 and 2018. 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) 2018 grant award was \$27,912,000. Ecology matches 20 percent of the grant award with state funds, of \$5,582,400. 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) 2019 was \$115M as published in Ecology's Intended Use Plan. CWSRF loan interest rates are between zero and 2.0 percent. This account is for loan activity.

The Water Pollution Control Revolving Admin (WPCRA) account was established in 2013. This account is funded from an administrative charge of 1% charged on the declining principal of loans that went into repayment after the new rule was effective December 21, 2013. This account is for program administrative activities to manage the CWSRF.

## 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, 2019 is \$1,110,255,029.

## Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF and the WPCRA. The basic financial statements of the CWSRF and WPCRA are intended to present the financial position, changes in financial position, and cash flows as of the years ended June 30, 2019 and 2018, of only that portion of the financial reporting entity of the Department of Ecology that is attributable to the transactions of the CWSRF and WPCRA. They do not purport to present the financial position of the Department of Ecology or the State of Washington (State) as of June 30, 2019 and 2018 and the change in their net positions and their cash flows for the years ended.

The Column headings on the financial statements indicated which account CWSRF (Loan Activity) or WPCRA (Program Activity) were recorded.

## Overview of Financial Statements

The financial statements of the CWSRF and WPCRA 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 and WPCRA's financial position, which assists the reader in assessing the CWSRF's and WPCRA'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 and WPCRA'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 and WPCRA are improving or deteriorating.
- The **Statements of Revenues, Expenses, and Changes in Net Position** present information which reflects how the CWSRF's and WPCRA'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 and WPCRA'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.

## Net Position

	<u>June 30,</u>			<u>June 30,</u>	<u>June 30,</u>
	<u>2019</u>			<u>2018</u>	<u>2017</u>
	Loan Activity	Program Activity	Total Activity	Total Activity	Total Activity
<b>ASSETS</b>					
Cash and cash equivalents	160,173,783	7,697,035	167,870,818	125,705,439	\$144,853,771
Loans receivable	947,495,785		947,495,785	937,913,723	871,299,096
All other assets	274,226	879,322	1,153,548	712,600	4,783,198
<b>Total assets</b>	<b><u>1,107,943,794</u></b>	<b><u>8,576,357</u></b>	<b><u>1,116,520,151</u></b>	<b><u>1,064,331,762</u></b>	<b><u>1,020,936,065</u></b>
<b>LIABILITIES</b>					
Current liabilities	4,379,463	184,513	4,563,976	5,666,379	5,863,556
All other Liabilities		1,701,146		1,491,305	
<b>Total liabilities</b>	<b><u>4,379,463</u></b>	<b><u>1,885,659</u></b>	<b><u>6,265,122</u></b>	<b><u>7,157,684</u></b>	<b><u>5,863,556</u></b>
<b>NET POSITION</b>					
Unrestricted	1,103,564,331	6,690,698	1,058,066,640	1,057,174,078	1,015,072,509
<b>Total net position</b>	<b><u>\$1,103,564,331</u></b>	<b><u>\$6,690,698</u></b>	<b><u>\$1,110,255,029</u></b>	<b><u>\$1,057,174,078</u></b>	<b><u>\$1,015,072,509</u></b>

## Changes in Net Position

During SFY19 the CWSRF total activity cash increased by \$42,165,379, as seen on the Statement of Net Position. The increase in cash is a result of increased repayments and decrease of loan disbursements. The State Treasurer's office credited \$2,566,498 in interest to the CWSRF account. The EPA capitalization grant funds provided \$28,266,047, and the State of Washington provided \$ 5,582,800 in matching funds. While cash increased from SFY18 to SFY19, due to more loans being in repayment than loans being disbursed.

The change in loans receivable is caused by more loans being in repayment. Ecology disbursed \$73,279,887 in loans during the year. Ecology received \$67,882,538 in principal payments from borrowers and applied \$2,940,982 in principal forgiveness during the year. Ecology paid \$1,954,603 in administrative expenses to employees, vendors, and for indirect costs.

During fiscal year 2018, the CWSRF cash decreased by \$23,856,189. Borrowers made \$61,312,165 in total loan repayments, including principal and interest. Ecology disbursed \$114,285,553 in loans during the year. The State Treasurer's Office credited \$1,319,443 in interest to the CWSRF account. Ecology paid \$1,749,702 in administrative expenses to employees, vendors, and for indirect costs. EPA capitalization grant funds provided \$22,931,422 in cash, and the State of Washington provided \$4,614,200 in matching funds.

## Changes in Net Position

	<u>June 30,</u>		<u>June 30,</u>		<u>June 30,</u>
	<u>2019</u>		<u>2018</u>		<u>2017</u>
	Loan Activity	Program Activity	Total Activity	Total Activity	Total Activity
<b>Revenues</b>					
Program revenues:					
Loan interest income	\$16,901,799	\$0	\$16,901,799	\$18,320,311	\$13,166,821
General revenues:					
Investment income	2,566,498	113,497	2,679,995	3,617,245	1,183,495
Other Income	0	4,381,974	4,381,974	0	
<b>Total revenues</b>	<b>\$19,468,297</b>	<b>\$4,495,471</b>	<b>\$23,963,768</b>	<b>21,937,556</b>	<b>14,350,316</b>
<b>Expenses</b>					
Program expenses:					
Administrative expenses	424,875	1,438,370	1,863,245	1,314,345	694,001
Other Expense				436,646	480,973
Principal forgiveness	2,940,982	0	2,940,982	3,359,215	1,963,274
<b>Total expenses</b>	<b>3,365,857</b>	<b>1,438,370</b>	<b>4,804,227</b>	<b>5,110,206</b>	<b>3,138,248</b>
<b>Increase in net position</b>					
<b>before contributions</b>	<b>16,102,440</b>	<b>3,057,101</b>	<b>19,159,541</b>	<b>16,827,350</b>	<b>11,212,068</b>
<b>Capital contributions:</b>					
EPA capitalization grant	28,266,047	0	28,266,047	22,931,422	29,829,027
Transfer Out					(3,000)
State and other contributions	5,582,800	0	5,582,800	4,614,200	6,000,000
Subtotal capital contributions	<b>33,848,847</b>	<b>0</b>	<b>33,848,847</b>	<b>\$27,545,622</b>	<b>\$35,826,027</b>
<b>Change in net position</b>	<b>\$49,951,287</b>	<b>\$3,057,101</b>	<b>\$53,008,388</b>	<b>\$44,372,972</b>	<b>\$47,038,095</b>
<b>Net position - beginning of year, as previously report</b>					
Prior Period Adjustment	1,053,540,480	3,633,598	1,057,174,078	1,018,679,608	967,218,001
Net position-beginning of year, as restated	72,564	0	72,564	(5,878,502)	(5,029,214)
<b>Net position - end of year</b>	<b>1,053,613,044</b>	<b>3,633,598</b>	<b>1,057,246,642</b>	<b>1,012,801,106</b>	<b>962,188,787</b>
<b>Net position - end of year</b>	<b>\$1,103,564,331</b>	<b>\$6,690,699</b>	<b>\$1,110,255,030</b>	<b>\$1,057,174,078</b>	<b>\$1,009,226,882</b>

## **Income for Fiscal Year 2019**

Net operating income of the CWSRF for SFY19 was \$19,159,541. 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 2019, the CWSRF earned \$28,266,047 in federal funds and \$5,582,800 in state matching funds.

## **Income for Fiscal Year 2018**

Net operating income of the CWSRF for SFY18 was \$16,827,350. 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 SFY18 the CWSRF earned \$22,931,422 in federal funds and \$4,614,200 in state matching funds.

## **State Matching Funds**

For SFYs 2018 and 2019, 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 \$5.6 million in SFY19, \$4.6 million was received and used in SFY 18.

## **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. SFY19 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 SFY19 (FFY18) the federal capitalization grant was approximately \$33.5 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 Jeff Nejedly, Department of Ecology's Water Quality Program Financial Management Section Manager, at (360) 407-6572 or [jeffrey.nejedly@ecy.wa.gov](mailto:jeffrey.nejedly@ecy.wa.gov).



**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CWSRF ANNUAL REPORT FOR SFY 19 (7/1/18-6/30/19)  
EXHIBIT 1: Comparative Statement of Net Position**

	2019		2018	
	Loan Activity	Program Activity	Total	Total Activity
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>				
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$160,173,783	\$7,697,035	\$167,870,818	125,705,439
Receivables:				
Due from federal government Loan interest	1,544		1,544	
Due from other funds	272,682	23,294	295,976	157,771
Loans Receivable	68,195,542		68,195,542	62,807,230
<b>Total current assets</b>	<b>228,643,551</b>	<b>7,720,329</b>	<b>236,363,880</b>	<b>188,670,440</b>
<b>Noncurrent Assets:</b>				
Loans Receivable	879,300,243		879,300,243	875,106,493
<b>Total other assets</b>	<b>879,300,243</b>		<b>879,300,243</b>	<b>875,106,493</b>
<b>Total Assets</b>	<b>1,107,943,794</b>	<b>7,720,329</b>	<b>1,115,664,123</b>	<b>1,063,776,933</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Resources for Pensions		301,345	301,345	489,449
Resources for OPEB		554,683	554,683	65,380
<b>Total Deferred Outflows of Resources</b>		<b>856,028</b>	<b>856,028</b>	<b>554,829</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>1,107,943,794</b>	<b>8,576,357</b>	<b>1,116,520,151</b>	<b>1,064,331,762</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>				
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued expenses	67,188	86,940	154,128	53,057
Due to other funds	1,863	96,468	98,331	93,836
Due to Federal Government	67,089	1,105	68,194	
Unavailable Revenue	4,243,323		4,243,323	5,519,486
<b>Total current liabilities</b>	<b>4,379,463</b>	<b>184,513</b>	<b>4,563,976</b>	<b>5,666,379</b>
<b>Noncurrent Liabilities:</b>				
Net Pension Liability		140,143	140,143	514,378
Total OPEB Liability		472,368	472,368	495,775
<b>Total noncurrent liabilities</b>		<b>612,511</b>	<b>612,511</b>	<b>1,010,153</b>
<b>Total Liabilities</b>	<b>4,379,463</b>	<b>797,024</b>	<b>5,176,487</b>	<b>6,676,532</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Resources on Pensions		427,109	427,109	357,935
Resources on OPEB		661,526	661,526	123,217
<b>Total Deferred Inflows of Resources</b>	<b>0</b>	<b>1,088,635</b>	<b>1,088,635</b>	<b>481,152</b>
<b>NET POSITION</b>				
Restricted	1,103,564,331	6,690,699	1,110,255,029	1,057,174,078
<b>Total Net Position</b>	<b>1,103,564,331</b>	<b>6,690,699</b>	<b>1,110,255,029</b>	<b>1,057,174,078</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>1,107,943,794</b>	<b>8,576,358</b>	<b>1,116,520,151</b>	<b>1,064,331,762</b>

The accompanying notes are an integral part of the financial statements

Washington State Clean Water Pollution Control Revolving Fund Annual Report to the  
U.S. Environmental Protection Agency

**DRAFT/UNAUDITED**

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CWSRF ANNUAL REPORT FOR SFY 19 (7/1/2018-6/30/2019)  
EXHIBIT 2: Comparative Statement of Revenues, Expenses, and Changes in Net Position**

	2019		2018	
	Loan	Program	Total	Total
	Activity	Activity		
<b>OPERATING REVENUE</b>				
Loan interest income	16,901,799	0	16,901,799	18,320,311
<b>Total operating revenue</b>	<b>16,901,799</b>	<b>0</b>	<b>16,901,799</b>	<b>18,320,311</b>
<b>OPERATING EXPENSES</b>				
Personnel services		1,248,917	1,248,917	1,314,345
Other expenses	424,875	189,453	614,328	436,646
Loan Principal Forgiveness expense	2,940,982		2,940,982	3,359,215
<b>Total operating expenses</b>	<b>3,365,857</b>	<b>1,438,370</b>	<b>4,804,227</b>	<b>5,110,206</b>
<b>INCOME FROM OPERATIONS</b>	<b>13,535,942</b>	<b>(1,438,370)</b>	<b>12,097,572</b>	<b>13,210,105</b>
<b>NONOPERATING REVENUE (EXPENSE)</b>				
Net investment income	2,566,498	113,497	2,679,995	1,366,288
Loan Services		4,381,974	4,381,974	2,250,957
<b>Total nonoperating revenue (expense)</b>	<b>2,566,498</b>	<b>4,495,471</b>	<b>7,061,969</b>	<b>3,617,245</b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<b>16,102,440</b>	<b>3,057,101</b>	<b>19,159,541</b>	<b>16,827,350</b>
<b>CONTRIBUTIONS</b>				
EPA capitalization grant	28,266,047		28,266,047	22,931,422
State match revenue	5,582,800		5,582,800	4,614,200
Transfer Out				
<b>Total contributions</b>	<b>33,848,847</b>	<b>0</b>	<b>33,848,847</b>	<b>27,545,622</b>
<b>CHANGE IN NET POSITION</b>	<b>49,951,287</b>	<b>3,057,101</b>	<b>53,008,388</b>	<b>44,372,972</b>
<b>NET POSITION - BEGINNING OF YEAR, as previously reported</b>	1,053,540,480	3,633,598	1,057,174,078	1,018,679,608
<b>Prior Period Adjustment</b>	72,564	0	72,564	(5,878,502)
<b>NET POSITION-Beginning of year, as restated</b>	1,053,613,044	3,633,598	1,057,246,642	1,012,801,106
<b>NET POSITION - END OF YEAR</b>	<b>1,103,564,331</b>	<b>6,690,699</b>	<b>1,110,255,030</b>	\$1,057,174,078

The accompanying notes are an integral part of the financial statements

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
CWSRF ANNUAL REPORT FOR SFY 19 (7/1/18-6/30/19)  
EXHIBIT 3: Comparative Statement of Cash Flows**

	2019			2018
	Loan Activity	Program Activity	Total Activity	Total Activity
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash paid to employees and vendors	(\$414,301)	(\$1506,292)	(\$1,920,593)	(1,730,213)
Cash Received from Interest on Loans	16,901,799		16,901,799	18,320,311
Loans Disbursed	(76,086,690)		(76,086,690)	(117,644,767)
Principal received on Loans Receivable	62,287,483		62,287,483	49,938,939
<b>Net Cash flows provided (required) by operating activities</b>	<b>2,688,291</b>	<b>(1,506,292)</b>	<b>1,181,999</b>	<b>(51,115,730)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Funds received from EPA	28,266,047		28,266,047	22,931,422
Funds received from the state of Washington	5,582,800		5,582,800	4,614,200
Loan Services		4,381,972	4,381,972	2,250,957
<b>Net Cash flows provided (Required) by noncapital operating activities</b>	<b>33,848,847</b>	<b>4,381,972</b>	<b>38,230,819</b>	<b>29,796,579</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net investment income received	2,566,498	113,497	2,679,995	1,366,288
<b>Net Cash Provided (Required) by Investing Activities</b>	<b>2,566,498</b>	<b>113,497</b>	<b>2,679,995</b>	<b>1,366,288</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>39,103,636</b>	<b>2,989,177</b>	<b>42,092,813</b>	<b>(19,952,863)</b>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR, as previously stated	120,997,582	4,707,857	125,705,439	145,658,303
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>160,101,218</b>	<b>7,697,034</b>	<b>167,798,252</b>	<b>125,705,440</b>
<b>Reconciliation of operating income to net cash required by operating activities</b>				
Income from Operations	\$13,535,942	(1,480,209)	12,055,733	13,210,105
<b>Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:</b>				
<b>Changes In Assets: Decrease (Increase)</b>				
Loans Receivable	(9,582,062)		(9,582,062)	(66,542,063)
Interest Receivable	0		0	(148,600)
Due from Other Funds	(124,021)	(14,184)	(138,205)	120,660
Due from Fed Government	(1,544)		(1,544)	110,274
<b>Change in Deferred Outflows of Resources: Increase (Decrease)</b>				
<b>Changes In Liabilities: Increase (Decrease)</b>				
Accounts Payable and Accrued Expenses	67,188	33,882	101,070	(21,338)
Due to other funds	1,863	2,632	4,495	31,117
Due to Federal Government	67,089	1,105	68,194	
Unavailable Revenue	(1,276,163)		(1,276,163)	2,195,449
<b>Change in Deferred Inflows of Resources: Decrease (Increase)</b>		<b>(49,519)</b>	<b>(49,519)</b>	<b>(71,275)</b>
Net Cash Provided (Required) by Operating Activities	\$2,688,291	(\$1,506,292)	\$1,181,999	(\$51,115,730)

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-Loan Activities) 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.

The Water Pollution Control Revolving Admin (WPCRA-Program Activities) account was established in 2013. This account is funded from an administrative charge of 1% charged on the declining principal of loans that went into repayment after the new rule was effective December 21, 2013. This account is for program administrative activities to manage the CWSRF.

### *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 \$776,245,460 in capitalization grants from 1989 through June 30, 2019. The State match share for that awarded amount is \$141,619,827.

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 funds 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 years ended June 30, 2019 the following GASB standards were adopted, which did not have a material impact on the Account's financial statements:

- **Statement No. 88, *Certain Disclosures Related to Debt*.** This statement clarifies the information that should be disclosed in the notes to government financial statements related to debt, including direct borrowings (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor).
- **Statement No. 83, *Certain Asset Retirement Obligations*.** This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for certain asset

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

retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset.

For the year ending June 30, 2018 the following were new standards adopted.

- Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement establishes standards of accounting and financial reporting for defined benefit other postemployment benefits (OPEB) and defined contribution OPEB that are provided to the employees of state and local governmental employers.
- Statement No. 85, Omnibus 2017. This Statement addresses practice issues that were identified during implementation and application of certain other GASB Statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

***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.

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

The maximum forgivable principal loan amount for each hardship recipient is \$5 million. Ecology disbursed \$2,940,982 and \$3,359,215 in forgivable principal loans during the years ended June 30, 2019 and 2018, respectively, which is recognized upon loan closure when final amounts of the project are determined.

***Operating Revenues and Expenses***

The Account distinguishes between operating revenues and expenses and non-operating 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 non-operating 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 2017 amounts have been reclassified, where appropriate, to conform with the 2018 final statement presentation.**

***Financial Statement Changes from 2017***

In 2018 we started using the State CAFR database for preparation of the financial statements. As a result, we found differences in how the state rolls up of revenue and expenses compared to our manual preparation in previous years.

Statement of Net Position:

- 2017-Cash and Cash Equivalent changed from \$144,853,771 to \$141,597,913 for transactions that were in process through cash as of June 30, 2017.
- 2017-Loan Interest of \$2,034,153 was not recorded in financial system as of June 30, 2017, so it was removed.

Washington State Clean Water Pollution Control Revolving Fund Annual Report to the  
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**DRAFT/UNAUDITED**

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

- 2017 & 2018-Deferred Outflows and Inflows were added in Asset and Liability section per GASB 75
- 2017 & 2018-Unavailable Revenue was added, was previous combined with Accounts Payable
- 2017-Accounts payable was understated by \$68,179.

Statement of Revenue, Expense and Changes in Net Position:

- 2017 & 2018-Personnel Services Pension and OPEB Expenses were added per GASB 75
- 2017 & 2018-Loan Principal Forgiveness Expense was moved from Non-operating Expense to Operating Expense

Statement of Cash Flow:

- 2017 & 2018-Cash Received, Loans Disbursed, Principal received on Loans Receivable were moved from Investing Activities to Operating Activities
- Reconciliation section – Removed Loan Interest Receivable of \$2,034,153 was not recorded in financial system as of June 30, 2017, so it was removed.
- 2017-Cash and Cash Equivalent –Beginning of year changed from \$144,853,771 to \$141,597,913 for transactions that were in process through cash as of June 30, 2017.
- 2017 & 2018-Changes in Deferred Outflows and Inflows of Resources were added per GASB 75

### *Prior period Adjustments*

In 2018 we started using the State CAFR database for preparation of the financial statements. As a result, we found differences in how the state rolls up of revenue and expenses compared to our manual preparation in previous years. We restate the financial statements for 2017 for comparative purposes. The Comparative Statement of Revenue, Expenses, and Changes in Net Position and The Comparative Statement of Cash Flows.

## 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, 2019, total Treasurer's invested balance of the Treasury/Trust Fund Portfolio was \$8.8 billion. Details of the investments can be obtained from the State Treasurer's Office.



**2. Deposits and Investments (Continued)**

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, 2019	<u>\$160,173,783</u>	<u>\$160,173,783</u>
Treasury/Trust Portfolio June 30, 2018	<u>\$120,994,400</u>	<u>\$120,944,400</u>

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

	<u>2019</u>	<u>2018</u>
CWSRF Securities on loan:		
Fair Value	\$ 10,405,335	\$ 4,983,666
*Cash Collateral held by CWSRF:		
Fair Value	0	0
Reported Value	0	0
OST Securities on loan:		
Fair Value	\$ 570,673,130	\$ 355,767,264
Cash Collateral held by OST:		
Fair Value	2,957,041,716	4,416,333,030
Reported Value	\$2,957,041,716	\$ 4,416,333,030

\* The new State Investment custodian has all of the collateral in the form of other securities, which require no reporting of assets and liabilities

## 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, 2019 and 2018, investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$160,173,783 book value and \$120,994,400 fair value, and \$570,673,130 book value and \$355,767,264 fair value respectively.

On June 30, 2019 and 2018, 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 2019, 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 2019 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, 2019 and 2018, the Account had total binding commitments of \$120,701,170 and \$111,984,556, 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 \$776,245,460 and \$748,333,460 as of June 30, 2019 and 2018, respectively. Loan obligations as of June 30, 2019 and 2018, which include state matching requirements and principal and interest collected from repayment, were \$1,932,020,940 and 1,831,385,759 respectively.

In fiscal year 2016 an overpayment of \$72,564 was returned to the department by City of Olympia. This amount was reduced from the Completed projects balance, but has not been adjusted in the State Agency Financial Reporting System.

#### Loans by Category Fiscal Year 2019

	Loan Authorized	Remaining Commitment	Receivable Balances
Completed projects	\$1,237,915,443	488,984,987	\$748,930,456
Projects in progress	283,339,719	84,846,954	198,492,765
Total			947,423,221
Payment requests in progress (Received as of June 30, 2019, but not yet paid)			
Less amount due in one year			68,195,542
Loans receivable, June 30, 2019 (Net of current maturities)			\$879,227,679

WASHINGTON STATE DEPARTMENT OF ECOLOGY  
 CWSRF ANNUAL REPORT FOR SFY 19 (7/1/18-6/30/19)  
 EXHIBIT 4: Notes to the Financial Statements for SFY19

**3. Loans Receivable (Continued)**

**Loans by Category Fiscal Year 2018**

	Loan Authorized	Remaining Commitment	Receivable Balances
Completed projects	\$1,164,062,435	446,781,973	\$717,207,897
Projects in progress	293,945,151	73,239,325	<u>220,705,826</u>
Total			937,913,723
Payment requests in progress (Received as of June 30, 2018, but not yet paid)			
Less amount due in one year			<u>62,807,230</u>
Loans receivable, June 30, 2018 (Net of current maturities)			<u><u>\$875,106,493</u></u>

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

<b>Year Ending June 30,</b>	<b>Interest</b>	<b>Principal</b>	<b>Total</b>
2020	15,333,890	61,501,751	76,835,641
2021	14,194,466	59,891,135	74,085,601
2022	13,077,972	58,443,654	71,521,626
2023	11,976,526	56,884,292	68,860,818
2024	10,874,093	55,894,133	66,768,226
2025-2029	38,421,162	227,420,413	265,841,575
2030-2034	15,849,656	151,293,464	167,143,120
2035-2039	8,114,284	73,583,723	81,698,007
2040-2044	1,094,282	4,017,891	5,112,173
Total	<u>\$128,936,331</u>	<u>\$748,930,456</u>	<u>\$877,866,787</u>
Loans not yet in repayment		<u>\$198,492,765</u>	
Total loans receivable		<u><u>\$947,423,221</u></u>	

### 3. Loans Receivable (Continued)

#### *Loans to Major Local Entities*

As of June 30, 2019, 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, 2019 and 2018 represent approximately 53.0 and 49.9 percent of the total loans receivable and are as follows:

<b>Borrower</b>	<b>2019</b>		<b>2018</b>	
	<b>Authorized</b>	<b>Outstanding</b>	<b>Authorized</b>	<b>Outstanding</b>
	<b>Loan</b>	<b>Loan</b>	<b>Loan</b>	<b>Loan</b>
	<b>Amount</b>	<b>Balance</b>	<b>Amount</b>	<b>Balance</b>
King County Department of Natural Resources	\$305,422	\$202,939	\$305,495	\$213,928
Lott Wastewater Alliance	76,223	49,622	76,207	52,398
Oak Harbor	103,384	103,080	102,048	86,247
Pierce County	63,408	59,494	63,408	62,018
Spokane City of	107,828	86,748	76,233	53,292
<b>Total</b>	<b>\$656,265</b>	<b>\$501,882</b>	<b>\$623,391</b>	<b>\$467,883</b>

(Figures are in Thousands)

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 \$776,245,460 in grants to the State, of which approximately \$776,245,460 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$141,619,827 in matching funds for that total drawn amount. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans: (Figures are expressed in thousands)

WASHINGTON STATE DEPARTMENT OF ECOLOGY  
 CWSRF ANNUAL REPORT FOR SFY 19 (7/1/18-6/30/19)  
 EXHIBIT 4: Notes to the Financial Statements for SFY19

**4. Capital Contributions (Continued)**

<b>Year</b>	<b>Grant Award</b>	<b>Funds Drawn As of June 30, 2017 &amp; Prior</b>	<b>Funds Drawn During Year Ended June 30, 2018</b>	<b>Funds Drawn As of June 30, 2018</b>	<b>Funds Drawn During Year Ended June 30, 2019</b>	<b>Funds Drawn As of June 30, 2019</b>	<b>Available for Loans as of June 30, 2019</b>
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	23,247		23,247		23,247	-
2014	24,383	24,383		24,383		24,383	-
2015	24,258	24,258		24,258		24,258	
2016	23,235	23,006		23,006		23,235	
2017	23,056		22,931	22,931		23,056	
2018	27,912				27,912	27,912	
<b>Total</b>	<b>708,093</b>	<b>656,896</b>	<b>22,931</b>	<b>679,827</b>	<b>0</b>	<b>708,093</b>	<b>0</b>
2008-ARRA	68,152	68,152	0	68,152	0	68,152	0
<b>Total</b>	<b>\$776,245</b>	<b>\$725,048</b>	<b>\$22,931</b>	<b>\$747,979</b>	<b>\$0</b>	<b>\$776,245</b>	<b>\$0</b>

(Figures are in Thousands)

	<b>State Match Applied As of June 30, 2017</b>	<b>State Match Applied During Year Ended June 30, 2018</b>	<b>State Match Applied As of June 30, 2018</b>	<b>State Match Applied During Year Ended June 30, 2019</b>	<b>State Match Applied As of June 30, 2019</b>
State Disbursed	\$131,426	\$4,611	\$136,037	\$5,582	\$141,619

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:

	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Administrative fee collected	\$4,381,974	\$2,250,957
Interest on admin fee collected	113,497	46,845
	<u>\$4,495,470</u>	<u>\$2,297,802</u>
Operating expenses incurred	<u>(\$1,529,728)</u>	<u>(\$1,749,702)</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, 2019 and 2018, Comprehensive Annual Financial Reports.

## 6. Retirement Plans

Clean Water State Revolving Program employees participate in the Washington State Public Employees' Retirement System (PERS) administered by the Department of Retirement Systems (DRS).

The table below shows the net pension liability, deferred outflows of resources, and deferred inflows of resources reported on June 30, 2019, for the Clean Water State Revolving Program's proportionate share of the liabilities for the PERS Plan 2/3. Additional detail is provided later in this note.

Clean Water State Revolving Program Proportionate Share  
 June 30, 2019

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 2/3	140,143	301,345	427,109
Total	\$140,143	\$301,345	\$427,109

DRS prepares a stand-alone financial report of the retirement plans that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380 or online at <http://www.drs.wa.gov/administration/annual-report>.

### 6.A. Public Employees' Retirement System

#### Plan Descriptions

The Legislature established the PERS in 1947. PERS retirement benefit provisions are established in chapters 41.34 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 Court, Court of Appeals, and Superior Courts (other than judges currently in a 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 governments.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans, and Plan 3 is a combination defined benefit/defined contribution plan. The defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined



## 6. Retirement Plans (Continued)

by the terms of the plan. Therefore, Plan 2/3 is considered to be a single defined benefit plan for reporting purposes. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members.

PERS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by February 28, 2002, for state and higher education employees, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3.

PERS participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to make a selection within 90 days default to Plan 3.

### Benefits Provided

PERS plans provide retirement, disability, and death benefits to eligible members. The monthly retirement benefit is two percent of the average final compensation (AFC) per year of service for Plan 1, capped at 60% and Plan 2, no cap, and one percent of the AFC per year of service for the defined benefit portion of Plan 3, no cap.

PERS Plan 1 and Plan 2 members are vested after the completion of five years of eligible service. Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44.

### Contributions

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions.

Each biennium, the state Pension Funding Council adopts Plan 1 employer contributions rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Contribution requirements are established and amended by state statute.

All employers are required to contribute at the level established by the Legislature. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The employer contribution rate for the Clean Water State Revolving Program at the close of fiscal year 2019 for each of Plans 1, 2, and 3 was 12.83 percent.

## 6. Retirement Plans (Continued)

The member contribution rate for Plan 1 is established by statute at six percent for employees of state agencies. Contributions for Plan 2 members are determined by the aggregate method and may vary over time. The contribution rate for Plan 2 state agency employees at June 30, 2019, was 7.40

percent of the employee's annual covered salary. Under Plan 3, employer contributions finance the defined benefit portion of the plan, and member contributions finance the defined contribution portion. The Director of the DRS sets Plan 3 employee contribution rate options. Members can choose from six rate options ranging from 5 to 15 percent. Two of the options are graduated rates dependent on the employee's age.

### Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2017, with the results rolled forward to June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50%
Investment rate of return	7.40%

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary (OSA) applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of the 2007-2012 Experience Study Report. Additional assumptions for subsequent events and law changes are current as of the 2017 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense but including inflation) are developed for each major asset class by the WSIB. Those expected returns make up one component of WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets in which the WSIB currently invests:

- Expected annual return.
- Standard deviation of the annual return.
- Correlations between the annual returns of each asset class with every other asset class.

## 6. Retirement Plans (Continued)

WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

The OSA selected a 7.40 percent long-term expected rate of return on pension plan investments. In selecting this assumption, OSA reviewed the historical experience data, considered the

historical conditions that produced past annual investment returns, and considered CMAs and simulated expected investment returns provided by WSIB. Refer to the 2017 Report on Financial Condition and Economic Experience Study on the OSA website for additional background on how this assumption was selected.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2018, are summarized in the following table:

<b>Rates of Return</b>		
<b>Asset Class</b>	<b>Target Allocations</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed Income	20%	1.70%
Tangible Assets	7%	4.90%
Real Estate	18%	5.80%
Global Equity	32%	6.30%
Private Equity	23%	9.30%
<b>Total</b>	<b>100%</b>	

The inflation component used to create the above table is 2.20 percent and represents WSIB’s most recent long-term estimate of broad economic inflation.

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan’s fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Consistent with current law, the completed asset sufficiency test included an assumed 7.50 percent long-term discount rate to determine funding liabilities for calculating future contribution rate requirements. Consistent with the long-term expected rate of return, a 7.40 percent future investment rate of return on invested assets was assumed for the test. Contributions from plan members and employers are assumed to continue to be made at contractually-required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

## 6. Retirement Plans (Continued)

The following presents the net pension liability/(asset) of the employers, calculated using the discount rate of 7.40 percent, as well as what the employers' net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.40 percent) or one percentage point higher (8.50 percent) than the current rate.

<b>Employers' Proportionate Share of Net Pension Liability/(Asset)</b>		PERS 2/3
1% Decrease		\$641,017
Current Discount Rate		\$140,143
1% Increase		(\$270,518)

### Net Pension Liability

At June 30, 2018, the Clean Water State Revolving Program reported a liability of \$140,143 for its proportionate share of the collective net pension liability for PERS 2/3. The Clean Water State Revolving Program's proportion for PERS 2/3 was .016 percent, an increase of .013 percent since the prior reporting period, the proportions are based on the Clean Water State Revolving Program's contributions to the pension plan relative to the contributions of all participating employers.

### Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

For the year ended June 30, 2019, a decrease to pension expense of \$49,519 was recognized for PERS 2/3.

At June 30, 2019, PERS 2/3 reported deferred outflows and inflows of resources related to pensions from the following sources:

<b>Deferred Outflows and Inflows of Resources</b>		
<b>June 30, 2019</b>		
PERS 2/3	Outflows	Inflows
Difference between expected and actual experience	\$17,178	\$24,536
Changes of assumptions	\$1,639	39,884
Net difference between projected and actual earnings on pension plan investments		\$85,9981
Changes in proportionate share of contributions	\$215,090	\$276,691
Contributions subsequent to measurement date	\$67,437	
<b>Total</b>	<b>\$301,345</b>	<b>\$427,109</b>

**6. Retirement Plans (Continued)**

Pension contributions made subsequent to the measurement date in the amount of \$67,437 PERS 2/3, was reported as deferred outflows and inflows respectively of resources at June 30, 2019, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Net Deferred Outflows and (Inflows) of Resources</b>	
<b>Fiscal Year ended June 30,</b>	
PERS 2/3	
2020	(37,898)
2021	(47,370)
2022	(14,223)
2023	(1,946)
2024	(30,611)
Thereafter	(6,119)

**7. Other Postemployment Benefits**

The Clean Water State Revolving Program is administered by Department of Ecology, an agency of the state of Washington and part of the primary government. Employees of the Clean Water State Revolving Program are eligible to participate in the state of Washington’s defined benefit Other Postemployment Benefit (OPEB) plan, a single employer defined benefit plan, as administered by the state through the Washington State Health Care Authority (HCA).

**Plan Description and Funding Policy**

The state implemented Statement No. 75 of the Governmental Accounting Standards Board (GASB) *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* for fiscal year 2018 financial reporting.

Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the 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. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

The relationship between the PEBB OPEB plan and its member employers and their employees and retirees is not formalized in a contract or plan document. Rather, the benefits are provided in accordance with a substantive plan in effect at the time of each valuation. 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.

## 7. Other Postemployment Benefits (Continued)

The PEBB OPEB plan is funded on a pay-as-you-go basis and is reported in governmental funds using the modified accrual basis and the current financial resources measurement focus. For all proprietary and fiduciary funds, the OPEB plan is reported using the economic resources

measurement focus and the accrual basis of accounting. It has no assets and does not issue a publicly available financial report.

The PEBB retiree OPEB plan is available to employees who elect at the time they retire to continue coverage and pay the administratively established premiums under the provisions of the retirement system to which they belong. Retirees' access to PEBB plans depends on the retirement eligibility of their respective retirement system. PEBB members are covered in the following retirement systems: Public Employees' Retirement System, Public Safety Employees' Retirement System, Teachers' Retirement System, School Employees' Retirement System, Washington State Patrol Retirement System, Higher Education, Judicial, and LEOFF 2. However, not all employees who participate in these plans offer PEBB to retirees.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2017, the average weighted implicit subsidy was valued at \$327 per member per month, and in calendar year 2018, the average weighted implicit subsidy is projected to be \$347 per adult unit per month. In calendar year 2019, the average weighted implicit subsidy is projected to be \$368 per adult unit per month.

Retirees who are enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. In calendar year 2017, the explicit subsidy was \$150 per member unit per month, and it remained \$150 per member unit per month in calendar year 2018. This was increased in calendar year 2019 to \$168 per member per month. It is projected to increase to \$183 per member per month in 2020.

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. The benefits are funded on a pay-as-you-go basis.

For information on the results of the most recent actuarial valuation for the OPEB plan, refer to: <http://leg.wa.gov/osa/additionalservices/Pages/OPEB.aspx>.

## 7. Other Postemployment Benefits (Continued)

### Total OPEB Liability

As of June 30, 2019 and 2018, the Clean Water State Revolving Program reported a total OPEB liability of \$472,368 and \$495,775 respectively.

### Actuarial Assumptions

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, the historical pattern of sharing of benefit costs between the employer provided at the time of each valuation, and the historical pattern of sharing of benefit costs between the employer and plan members (active employees and retirees) 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, consistent with the long-term perspective of the calculations.

The total OPEB liability was determined using the following actuarial assumptions, applied to all period included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary increases	3.50%
Healthcare trend rates	8.00%
<i>Trend rate assumptions vary slightly by medical plan. Initial rate is 8%, reaching an ultimate rate of approximately 4.5% in 2080</i>	
Post-retirement participation	65.0%
Percentage with spouse coverage	45.0%

In projecting the growth of the explicit subsidy, after 2020 when the cap is \$183, it is assumed to grow at the healthcare trend rate. The Legislature determines the value of cap and no future increases are guaranteed, however based on historical growth patterns, future increases to the cap are assumed.

### Sensitivity of the Healthcare Cost Trend Rate

	Ecology
1% Decrease	387,768
Current Discount Rate	472,368
1% Increase	584,869

Mortality rates were based on the RP-2000 Combined Healthy Table and Combined Disabled Table published by the Society of Actuaries. The Office of the State Actuary applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using

**7. Other Postemployment Benefits (Continued)**

100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetime.

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage, were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2017 Economic Experience Study.

**Actuarial Assumptions**

The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	6/30/2018
Actuarial Measurement Date	6/30/2018
Actuarial Cost Method	Entry Age
Amortization Method	9 years
<i>The recognition period for the experience and assumption changes is 9 years. This is equal to the average expected remaining service lives of all active and inactive members.</i>	
Asset Valuation Method	N/A – No Assets

**Discount Rate**

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 3.58 percent for the June 30, 2017 measurement date and 3.87 percent for the June 30, 2018 measurement date.

The following represents the Clean Water State Revolving Program’s proportionate share of the total OPEB liability, calculated using the discount rate of 3.58 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current rate.

**Sensitivity of the Discount Rate  
 OPEB Liability**

1% Decrease	569,564
Current Discount Rate	472,368
1% Increase	396,533



**7. Other Postemployment Benefits (Continued)**

The following table shows changes in the Clean Water State Revolving Program's total OPEB liability.

**Changes in Total OPEB Liability  
 for Year Ending June 30, 2019**

	Ecology
Total OPEB Liability-Beginning	495,775
Changes for the year:	
Service cost	29,533
Interest cost	20,304
Differences Between Expected and Actual Experience	18,533
Changes of assumptions*	(129,292)
Benefit payments	(8,575)
Changes in proportionate share	46,089
Net Change in Total OPEB Liability	(115,586)
Total OPEB Liability-Ending	472,368

\*The recognition period for these changes is nine years. This is equal to the average remaining service lives of all active and inactive members.

**OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources**

The following table shows components of the Clean Water State Revolving Program's allocated annual OPEB costs for fiscal year 2019. The Clean Water State Revolving Program's will recognize OPEB expense of \$25,599.

**Proportionate Share of OPEB Expense  
 Ending June 30, 2019**

	Ecology
Current year allocated Costs:	
Service cost	29,533
Interest cost	20,304
Amortization of Differences between Expected and Actual Experience	2,059
Amortization of changes of assumptions	(23,692)
Amortization of changes in proportion	6,068
Transactions subsequent to the measurement date	(8,673)
Total OPEB Expense	25,599

\*The changes in proportionate share was not included in the OPEB expense amount booked as it was not completed until after the Office of the State Actuary's (OSA) valuation.

**7. Other Postemployment Benefits (Continued)**

For fiscal year 2019 Ecology reported its proportionate share of the state reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**OPEB Expense, Deferred Outflows and Inflows of Resources  
 June 30, 2019**

	Inflows	Outflows
Difference between expected and actual experience		16,474
Changes of assumptions	180,209	
Transactions subsequent to the measurement date		8,673
Changes in Proportion	481,317	529,536
Total	661,526	554,683

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2019.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense in the fiscal years ended June 30 as follows:

**Net Deferred Outflows and (Inflows) of Resources  
 Subsequent Years**

	<b>Ecology</b>
2020	(15,565)
2021	(15,565)
2022	(15,565)
2023	(15,565)
2024	(15,565)
Thereafter	(37,694)

A complete description of the funded status and actuarial assumptions of the state of Washington's OPEB plan is included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, Washington 98504-3127, or online at <http://www.ofm.wa.gov/cafr>.

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EXHIBIT 5: Required Supplemental Information**

**PENSION PLAN INFORMATION**

**Cost Sharing Employer Plans**

<b>Schedule of the SRF's Proportionate Share of the Net Pension Liability</b>				
<b>Public Employees' Retirement System (PERS) Plan 2/3</b>				
Measurement Date of June 30 *				
	<b>2018</b>		<b>2017</b>	
SRF's PERS Plan 2/3 employers' proportion of the net pension liability/(asset)	0.02	%	0.03	
SRF's PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset)	\$ 0		514,378	
SRF's PERS Plan 2/3 employers' covered-employee payroll	\$ 852,717		1,453,653	
SRF's PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	16.43	%	35.39	%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	95.77	%	90.97	%

\* This schedule is to be built prospectively until it contains ten years of data.

<b>Schedule of Contributions</b>				
<b>Public Employees' Retirement System (PERS) Plan 2/3</b>				
Fiscal Year Ended June 30*				
	<b>2019</b>		<b>2018</b>	
Contractually Required Contributions	\$ 67,154		114,728	
Contributions in relation to the contractually required contributions	67,154		114,728	
Contribution deficiency (excess)	\$ —			
Covered-employee payroll	\$ 890,443		1,544,694	
Contributions as a percentage of covered-employee payroll	7.54%		7.43%	

\* This schedule is to be built prospectively until it contains ten years of data.

PENSION PLAN INFORMATION  
Notes to Required Supplementary Information

**Methods and assumptions used in calculations of Actuarially Determined Contributions (ADC) for**

**PERS, TRS, LEOFF, and WSPRS.**

The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 of the Revised Code of Washington (RCW). Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2015, valuation date, completed in the fall of 2016, determined the ADC for the period beginning July 1, 2017, and ending June 30, 2019.

**Methods and assumptions used in calculations of the ADC for JRS and Judges.**

The OSA calculates the ADC based on the results of an actuarial valuation, and sets the ADC equal to the expected benefit payments from the plan. Consistent with the state's funding policy defined under RCWs 2.10.90 and 2.12.60, the Legislature makes biennial appropriations in order to ensure the fund is solvent to make the necessary benefit payments.

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates may be different pending the actions of the governing bodies. For instance, for the period beginning July 1, 2017, and ending June 30, 2019, the contribution rates adopted by the Pension Funding Council, and unchanged by the Legislature, reflect a phase-in of the increase to contribution rates that resulted from a change to the mortality assumption. The increase is expected to be phased in over three biennia for PERS 1/2/3, TRS 1/2/3, PSERS 2, and WSPRS 1/2. For cost-sharing plans, OSA calculates the Contractually Required Contributions (CRC) using the same assumptions and methods as the ADC except the CRC reflects the adopted contribution rates for the time period shown, which may differ from the contribution rates produced for the ADC.

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**OTHER POSTEMPLOYMENT BENEFITS INFORMATION**

<b>Schedule of Changes in Total OPEB Liability and Related Ratios</b>		
As of the Measurement Date June 30*		
	<b>2018</b>	<b>2017</b>
<b>Total OPEB Liability</b>		
Service cost	\$ 29,533	33,611
Interest	20,304	15,743
Changes in benefit terms	—	
Difference between expected and actual experience	18,533	
Changes in assumptions	(129,292)	(76,797)
Benefit payments	(8,575)	(8,024)
Other	46,089	2,949
<b>Net Changes in Total OPEB Liability</b>	<b>(23,408)</b>	<b>(32,518)</b>
<b>Total OPEB Liability - Beginning</b>	495,775	528,293
<b>Total OPEB Liability - Ending</b>	<b>\$ 472,367</b>	<b>495,775</b>
<p>*The recognition period for these changes is nine years. This is equal to the average expected remaining service live of all active and inactive members.</p> <p>Note: Figures may not total due to rounding</p>		

**Notes to Required Supplementary Information**

The Public Employee's Benefits Board OPEB plan does not have assets in trusts or equivalent arrangements and it is funded on a pay-as-you-go basis. Potential factors that may significantly affect trends in amounts reported include changes to the discount rate, health care trend rates, salary projections, and participation percentages.

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**DISBURSEMENTS AND ACCRUALS**

	SFY 2019	Federal	State- Match	State- Repmnt- Other	564 Acct
<b>2019</b>					
DISBURSEMENTS FOR LOANS	\$33,494,400	\$27,912,000	\$5,582,400	42,726,468	
2019 DISBURSEMENTS FOR ADMIN	\$424,875	\$354,048	\$70,827	0	\$1,531,528
<b>TOTAL DISBURSEMENTS</b>	<b>\$33,919,275</b>	<b>\$28,266,048</b>	<b>\$5,653,227</b>	<b>42,726,468</b>	<b>8</b>
2019 CASH DRAW FROM CAPITALIZATION GRANTS	(\$28,266,048)				
2019 STATE MATCH (20% of CASH DRAWS)	(\$5,653,227)				
2019 100% STATE FUNDS DISBURSEMENTS	\$42,726,468				
<b>TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE</b>	<b>\$76,645,744</b>				
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.33%				
ADMIN CALCULATION	1.25%				