



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

**For State Fiscal Year 2020  
July 1, 2019-June 30, 2020**

By Shelly McMurry

For the

**Water Quality Program**

Washington State Department of Ecology  
Olympia, Washington



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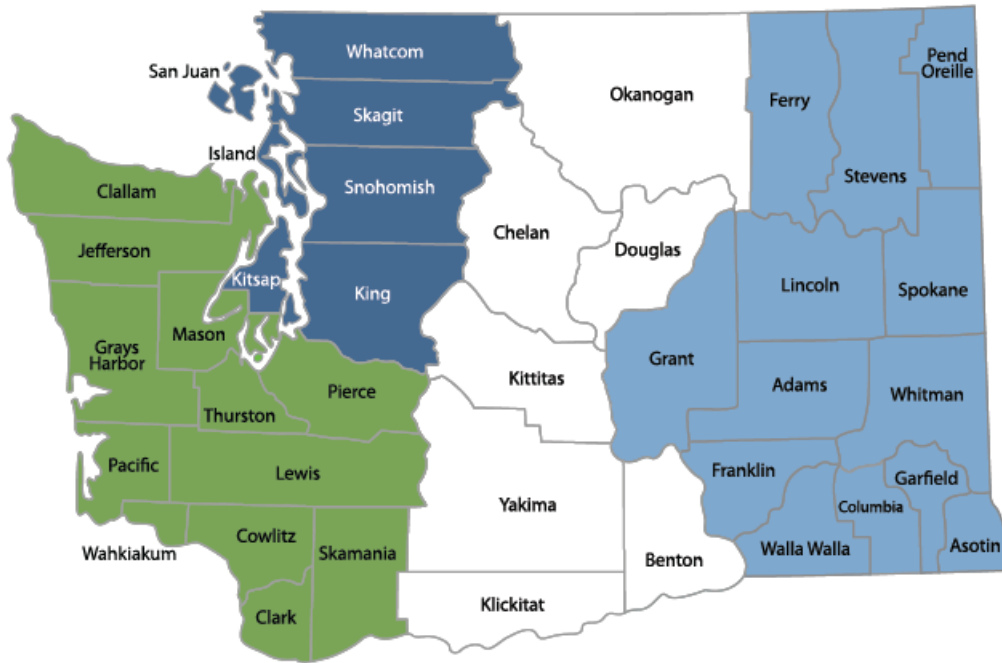
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<sup>1</sup> [www.ecology.wa.gov/contact](http://www.ecology.wa.gov/contact)

# Department of Ecology's Regional Offices

## Map of Counties Served



<b>Southwest Region</b> 360-407-6300	<b>Northwest Region</b> 425-649-7000	<b>Central Region</b> 509-575-2490	<b>Eastern Region</b> 509-329-3400
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Region	Counties served	Mailing Address	Phone
<b>Southwest</b>	Clallam, Clark, Cowlitz, Grays Harbor, Jefferson, Mason, Lewis, Pacific, Pierce, Skamania, Thurston, Wahkiakum	PO Box 47775 Olympia, WA 98504	360-407-6300
<b>Northwest</b>	Island, King, Kitsap, San Juan, Skagit, Snohomish, Whatcom	3190 160th Ave SE Bellevue, WA 98008	425-649-7000
<b>Central</b>	Benton, Chelan, Douglas, Kittitas, Klickitat, Okanogan, Yakima	1250 W Alder St Union Gap, WA 98903	509-575-2490
<b>Eastern</b>	Adams, Asotin, Columbia, Ferry, Franklin, Garfield, Grant, Lincoln, Pend Oreille, Spokane, Stevens, Walla Walla, Whitman	4601 N Monroe Spokane, WA 99205	509-329-3400
<b>Headquarters</b>	Across Washington	PO Box 46700 Olympia, WA 98504	360-407-6000

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

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**For State Fiscal Year 2020  
July 1, 2019-June 30, 2020**

Water Quality Program, Financial Management Section  
Washington State Department of Ecology

**October 2020 | Publication 20-10-040**



DEPARTMENT OF  
**ECOLOGY**  
State of Washington

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- Beth McKee

## 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, 2020, Ecology's CWSRF program had received a total \$803,876,460 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 \$2,037,579,377.

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 2020 (SFY20) 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 SFY20 (July 1, 2019, through June 30, 2020).

The SFY20 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 15, 2018. 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 2020 Water Quality Financial Assistance* Publication #19-10-027. 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 139 applications for about \$263 M in loans for the SFY20 funding.

Ecology used the Federal Fiscal Year (FFY) 2019 appropriation of \$27,631,000 as the capitalization grant for the SFY20 IUP. Ecology set the SFY20 CWSRF program capacity at \$120 M. In addition to the EPA capitalization grant, CWSRF program funds came from a required state match of 20 percent of the grant (\$5,526,000), principal repayments, and interest and investment earnings.

For SFY20, Ecology issued binding commitments for 34 projects totaling \$101,971,273. The weighted interest for these agreements is 2.16759 percent (65.02 percent of the average market rate for 20 year tax-exempt municipal bonds). Of these binding commitments,

\$3,229,090 was provided in the form of forgivable principal (loans that do not have to be repaid). The FFY19 capitalization grant (cap grant) set a minimum of \$2,763,100 and maximum of \$11,052,400 for forgivable principal loans.

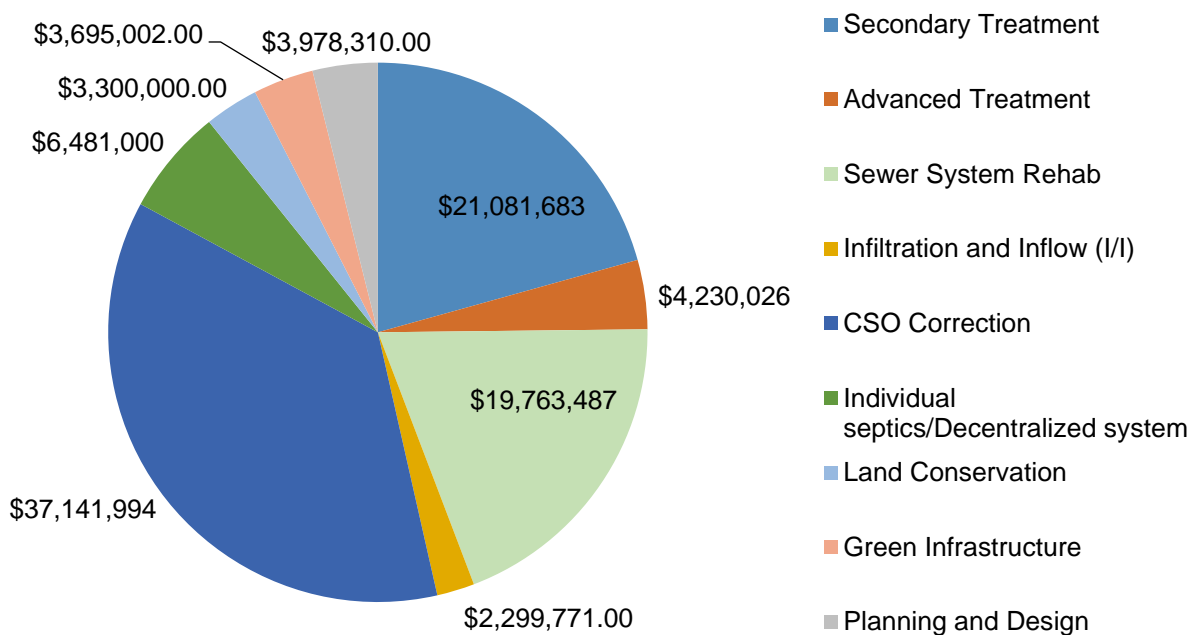
The FFY19 capitalization grant required Ecology to award 10 percent of the federal capitalization grant (\$2,763,100) to projects or project elements that fit within one or more of the Green Project Reserve (GPR) categories. These categories include:

- Environmentally innovative.
- Water efficiency.
- Energy efficiency.
- Green infrastructure.

Ecology awarded \$9,981,000 or 36 percent of the cap grant to GPR projects or project elements, easily meeting this requirement.

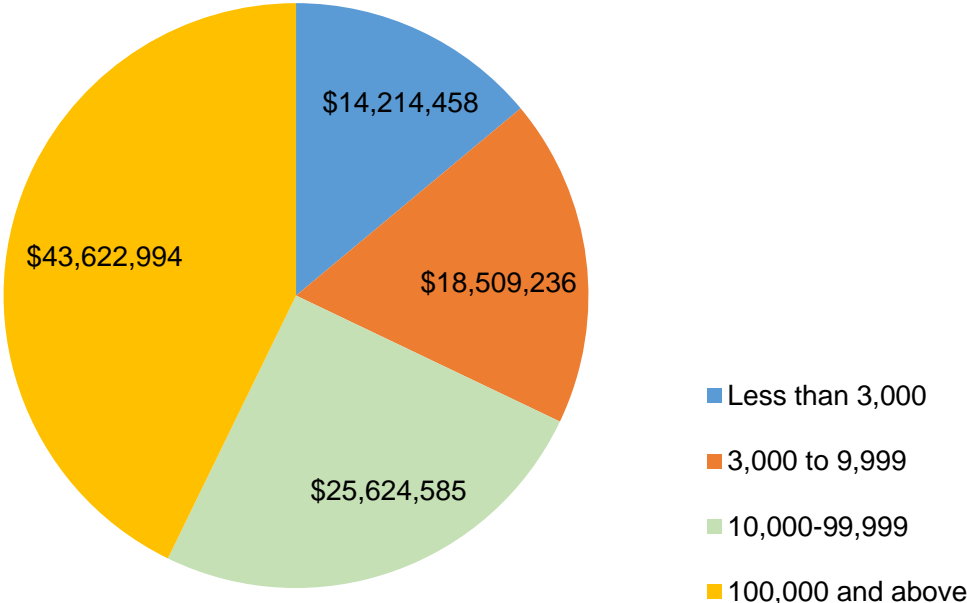
The following graph shows assistance provided to each water quality needs category. A total of 87 percent of the funds in SFY20 are being used for Clean Water Act (CWA) Section 212 projects (wastewater projects) and 13 percent for CWA Section 319 (nonpoint activity projects). 94 percent of the funds 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. 43 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 four 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 FFY19 capitalization grant is administered in the SFY20 funding cycle.

## What is in this report

This report discusses how Ecology administered the CWSRF FFY19 capitalization grant, state match, and principal and interest repayments during SFY20. 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 FFY19 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY20.
- Presents a Management Discussion and Analysis section providing CWSRF financial statements.
- Includes several exhibits containing the unaudited financial statements of the CWSRF for SFY20.

## 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 SFY20, Ecology organized and facilitated two 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 SFY20 Ecology developed a Draft IUP for SFY21 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 SFY20 Ecology offered 63 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 SFY20 Ecology offered approximately 4.4 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 SFY20, Ecology identified a reduced SFAP grant match for 4 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 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 SFY20 cycle across the state on August 2019.
  - 4) Conduct two annual funding recipient workshops.
    - Ecology held recipient training workshops in Tacoma and Moses Lake in July 2019 for the SFY20 recipients to learn grant and loan management requirements.
  - 5) Maintain the [Water Quality Grants and Loans webpage](https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans) at: <https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans>
    - Ecology regularly updates [the grant and loan funding website](https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans) <https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans> 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 2019 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"](http://www.bondbuyer.com/marketstatistics/search_bbi.html?details=true) 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 180 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).
    - 2.7 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, and information available in the State Auditors Office’s Financial Intelligence Tool, <https://portal.sao.wa.gov/FIT/>. 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 CWSRF 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 March 27, 2019 and November 13, 2019 to review and discuss ongoing and emerging CWSRF and combined financial assistance program issues.
  - Ecology conducted one internal CWSRF Management Oversight Committee meetings on November 5, 2019 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 2020, Ecology and EPA amended the Operating Agreement for the CWSRF program. The agreement contains numerous conditions that Ecology must meet. This report documents compliance with conditions in the Operating Agreement and Capitalization Grants.

### Information on loan agreements signed and binding commitments

Ecology entered into binding commitments for 34 CWSRF agreements totaling \$101,971,273 in SFY20. Table 1 lists the eight projects totaling \$14,805,255 that declined their funding offer. Table 2 provides information on agreements signed or binding commitments made in SFY20.

Table 1: Declined Funding Offers

Applicant	Application Number	Amount
Asotin County - Public Works Department	WQC-2020-AsCoPW-00052	\$ 30,000
Bremerton city of - Public Works and Utilities	WQC-2020-BremPW-00191	\$ 600,000
Cashmere city of	WQC-2020-Cashme-00212	\$ 1,735,242
Grandview city of	WQC-2020-Grandv-00007	\$ 18,507
Lummi Tribal Sewer and Water District	WQC-2020-LuTSDW-00044	\$ 2,107,000
North Bend City	WQC-2020-NorBen-00038	\$ 9,927,102
Oakesdale town of	WQC-2020-Oakesd-00188	\$ 169,000
Yelm city of - Public Works Department	WQC-2020-YelmPW-00197	\$ 218,404
<b>8 Projects</b>		<b>\$ 14,805,255</b>

Table 2: CWSRF Agreements/Binding Commitments in SFY20

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
WQC-2020-AberPW-00035	EL200410	Aberdeen WWTF Disinfection Improvements, Construction	I - Secondary Treatment	2,460,752	2,460,752		2.0%	20	5/27/2020
WQC-2020-Centra-00134	EL200438	Centralia WWTP Facility General Sewer Phase 1 Improvements	I - Secondary Treatment	4,124,274	4,124,274		1.5%	20	5/28/2020
WQC-2020-LuTswD-00042	EL200465	Gooseberry Point WWTF Improvements Construction	I - Secondary Treatment	8,833,136	8,833,136		1.7%	20	6/17/2020
WQC-2020-Vaderc-00106	EL200403	City of Vader Wastewater Treatment Facility Lagoon Upgrades	I - Secondary Treatment	2,266,454	2,266,454		2.2%	30	6/29/2020
WQC-2020-YaCoPS-00155	EL200343	Buena Wastewater Treatment Facility Improvements	I - Secondary Treatment	667,365	575,905	91,460	0.9%	20	4/15/2020
WQC-2020-Bingen-00072	EL200416	Wastewater Treatment Facility and Collection System Improvements	I - Secondary Treatment & III-B - Sewer System Rehabilitation	2,603,000	2,603,000		2.0%	20	4/13/2020
WQC-2020-CoTCIR-00045	EL200367	Chehalis Tribe Collection System and WWTF Upgrades	I - Secondary Treatment & III-B - Sewer System Rehabilitation	2,856,404	2,609,279	247,125	2.7%	30	12/6/2019
WQC-2017-ChCPUD-00119	EL200374	Peshastin Wastewater Improvement Project, Part 2	II - Advanced Treatment	744,726	744,726		1.8%	20	2/19/2020
WQC-2020-EphrPW-00012	EL200185	Water Reclamation Facility and Collection System Improvements	II - Advanced Treatment & III-B - Sewer System Rehabilitation	6,970,600	6,970,600		2.0%	20	3/20/2020
WQC-2020-ClaCPW-00040	EL200287	Clallam Bay - Sekiu Sewer Improvements	III-A Infiltration/ Inflow (I/I) Correction	2,299,771	1,865,271	434,500	2.0%	20	11/25/2019

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
WQC-2020-BremPW-00066	EL200459	Decommission Beach Sewer from OF-4 to EB-2	III-B - Sewer System Rehabilitation	2,300,000	2,300,000		2.0%	20	6/3/2020
WQC-2019-Grandview-00092/WQC-2020-Grandv-00113	EL200129	Sanitary Sewer Trunk Main Replacement - Construction	III-B - Sewer System Rehabilitation	3,988,500	3,888,500	100,000	2.0%	20	11/5/2019
WQC-2020-RitzCi-00127	EL200275	Pete's Lift Station Rehabilitation and Overloaded Sanitary Sewer	III-B - Sewer System Rehabilitation	813,351	729,351	84,000	2.3%	30	2/13/2020
WQC-2020-Spokane-00144	EL200372	Post Street Bridge Sewer Line Replacement	III-B - Sewer System Rehabilitation	5,054,421	5,054,421		2.0%	20	5/6/2020
WQC-2020-Spokane-00150	EL200371	TJ Meenach Sanitary Sewer Siphon	III-B - Sewer System Rehabilitation	954,000	954,000		2.0%	20	5/6/2020
WQC-2020-Warden-00025	EL200306	Lift Station No. 2 & Force Main Replacement	III-B - Sewer System Rehabilitation	438,213	422,863	15,350	1.4%	20	1/15/2020
WQC-2020-ClaCPW-00138	EF200286	Clallam Bay - Sekiu Wastewater Treatment Facility Design	Planning/Design	100,000	100,000				5/1/2020
WQC-2020-CoCle-00178	EL200411	Cle Elum General Sewer Plan	Planning/Design	230,000	115,000	115,000	2.0%	20	5/12/2020
WQC-2020-CoPIED-00172	EL200291	College Place WWTP Design	Planning/Design	2,500,000	1,900,000	600,000	2.0%	20	2/4/2020
WQC-2020-CusTo-00196	EL200408	Town of Cusick Wastewater Facility Plan	Planning/Design	90,000	45,000	45,000	2.0%	20	3/31/2020
WQC-2020-Harrin-00041	EL200284	Harrington Wastewater Plan update/assessment of biological nutrient removal	Planning/Design	45,000	22,500	22,500	2.0%	20	5/21/2020

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
WQC-2020-HoHaSD-00049	EL200376	Holmes Harbor Sewer District General Sewer Plan	Planning/Design	70,000	35,000	35,000	1.0%	5	6/11/2020
WQC-2020-Mattaw-00004	EL200395	WWTF Hydrogeological Study	Planning/Design	205,500	102,750	102,750	2.0%	20	2/13/2020
WQC-2020-Okanog-00079	EL200399	Wastewater Facility/General Sewer Plan	Planning/Design	210,000	105,000	105,000	2.0%	20	5/27/2020
WQC-2020-RoyalC-00078	EL200312	Wastewater Facility Plan	Planning/Design	150,000	75,000	75,000	2.0%	20	6/12/2020
WQC-2020-THSD-00110	EL200425	General Sewer Plan	Planning/Design	145,000	145,000		2.0%	20	3/20/2020
WQC-2020-TwisPW-00073	EL200421	Town of Twisp Wastewater Facility Engineering Report	Planning/Design	112,810	56,405	56,405	2.0%	30	2/13/2020
WQC-2020-Wilkto-00075	EL200335	Wilkeson General Sewer and Wastewater Facilities Plan	Planning/Design	120,000	120,000		2.0%	20	4/11/2020
WQC-2019-KCoNRP-00040	EL200448/ EL200379	Georgetown Wet Weather Treatment Station (GWWTS)	V - CSO Correction	37,141,994	37,141,994		2.7%	30	6/26/2020
WQC-2020-MetFal-00027	EL200450	Metaline Falls Combined Sewer Separation and CSO Elimination Project	VI-C Green Stormwater	19,500	19,500		1.0%	5	5/4/2020
WQC-2020-MonrDC-00056	EL200463	Blueberry Lane Infiltration/Conveyance	VI-C Green Stormwater	877,750	877,750		2.0%	20	3/20/2020
WQC-2020-TacoES-00070	EL200385	Larchmont Permeable Neighborhood Project	VI-C Green Stormwater	2,797,752	2,797,752		2.0%	20	4/14/2020
WQC-2016-Craft3-00376/ WQC-2020-SnCoPW-00190	EL200134	Regional Clean Water Loan Program Expansion to Improve Water Quality	VII-L - Decentralized Sewage Treatment	6,481,000	5,481,000	1,000,000	1.3%	20	11/6/2019



<b>Application Number (EAGL)</b>	<b>Agreement Number</b>	<b>Project Title</b>	<b>Clean Water Needs Category (EAGL)</b>	<b>Total Assistance</b>	<b>Loan Amount</b>	<b>Forgivable Loan Amount</b>	<b>Int Rate %</b>	<b>Term</b>	<b>Binding Commitment Date</b>
WQC-2020-Ilwaco-00220	EL200564	Indian Creek Source Watershed Protection Plan	VII-M NPS - Land Conservation & VII-C NPS - Silviculture	3,300,000	3,300,000		1.3%	20	6/15/2020
				<b>Total Binding Commitments</b>	<b>\$ 101,971,273</b>	<b>\$ 98,842,183</b>	<b>\$ 3,129,090</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 SFY20.

Table 3: Binding Commitments with Respect to Federal Grant Payments in SFY20

Capitalization Grant Received During SFY20	\$27,631,000
Binding Commitments Required Within One Year of Receipt	\$33,157,200
Binding Commitments at the End of SFY20	\$101,971,273
<b>Percent of Capitalization Grant under Binding Commitment at the End of SFY20</b>	<b>369%</b>

## Timely and Expeditious Use of Funds

Table 4: Timely and Expeditious Use of Federal Funds

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY20)	735,724,560	68,151,900	803,876,460
State Match (cumulative through SFY20)	147,146,027		147,146,027
Principal and Interest Collected (cumulative through SFY20)	1,026,220,848		1,026,220,848
State Treasurer's Office Interest (cumulative through SFY20/cash basis)	45,583,709		45,583,709
Administration 4% (cumulative through SFY20)	(26,935,638)	(2,726,076)	(29,661,714)
Total Funds (cumulative through SFY20)	1,927,739,507	65,425,824	1,993,165,331
Loan Obligations (cumulative through SFY20)	1,972,129,728	65,449,649	2,037,579,377

**Loans as % of Funds Available 102.23%**

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

## State match

The legislation authorized the match as a Treasurer's cash transfer from the State Taxable Building Construction account into account 727. For SFY20 the State Treasurer deposited \$5,526,200 into the CWSRF account.

## Green Project Reserve

The FFY19 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 FFY19 grant totaled \$27,631,000 which set the GPR requirement at \$2,763,100.

In SFY20 Ecology made specific offers of \$9,981,000 M to the three GPR-eligible projects (Table 5). These funds equal thirty-six percent of the cap grant, meeting the ten percent requirement.

Table 5: Green Project Reserve (GPR) Funded Projects in SFY20

Application Number	Agreement Number	Recipient Name	Project Title	GPR Category	Standard Loan Amount	Forgivable Principal Loan Amount
WQC-2020-AberPW-00035	EL200410	Aberdeen city of - Public Works	Aberdeen WWTF Disinfection Improvements, Construction	2.2-1 retrofitting existing treatment processes to eliminate reliance on potable water.	\$ 1,500,000	
WQC-2020-TacoES-00070	EL200385	Tacoma city of - Environmental Services Department	Larchmont Permeable Neighborhood Project	Categorical 1.2-1 Green infrastructure practices in transportation right of ways.	\$ 2,000,000	
WQC-2016-Craft3-00376/ WQC-2020-SnCoPW-00190	EL200134/ EF200133	Craft 3	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.	\$ 5,481,000	\$ 1,000,000
			<b>Total</b>	<b>\$ 9,981,000</b>	<b>\$ 8,981,000</b>	<b>\$ 1,000,000</b>

## Additional Subsidization (ASR) and Sustainability of Funded Projects

The FFY19 grant from EPA specifies that Ecology must use at least ten percent of the grant to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants. The FFY19 grant totaled \$27,631,000 which set the ASR requirement with a minimum of \$2,763,100 and maximum of \$11,052,400.

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

In SFY20 Ecology provided forgivable principal loans to 17 applicants totaling \$3,229,000, falling within the minimum and maximum requirement. Table 6 summarizes the recipients that received forgivable principal loans for their projects.

Table 6: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY20

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afforded the project without additional subsidization?
WQC-2020-ClaCPW-00040	EF200288	Clallam County - Public Works	Clallam Bay - Sekiu Sewer Improvements	434,500	Sustainable Planning and Design	N
WQC-2020-ClaCPW-00138	EF200286	Clallam County - Public Works	Clallam Bay - Sekiu Wastewater Treatment Facility Design	100,000	Sustainable Planning and Design	Y
WQC-2020-CoCle-00178	EF200412	Cle Elum city of	Cle Elum General Sewer Plan	115,000	Sustainable Planning and Design	Y
WQC-2020-CoPIED-00172	EF200303	College Place city of - Engineering Department	College Place WWTP Design	600,000	Sustainable Planning and Design	Y
WQC-2020-CoTCIR-00045	EF200368	Confederated Tribes of the Chehalis Indian Reservation	Chehalis Tribe Collection System and WWTF Upgrades	247,125	Sustainable Planning and Design	Y
WQC-2016-Craft3-00376/ WQC-2020-SnCoPW-00190	EF200133	Craft 3	Regional Clean Water Loan Program Expansion to Improve Water Quality	1,000,000	Green Project Reserve	Y
WQC-2020-CusTo-00196	EF200409	Cusick town of	Town of Cusick Wastewater Facility Plan	45,000	Sustainable Planning and Design	Y
WQC-2019-Grandview-00092	EF200136	Grandview city of	Sanitary Sewer Trunk Main Replacement - Construction	100,000	Sustainable Planning and Design	Y

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afforded the project without additional subsidization?
WQC-2020-Harrin-00041	EF200285	Harrington city of	Harrington Wastewater Plan update/assessment of biological nutrient removal	22,500	Sustainable Planning and Design	Y
WQC-2020-HoHaSD-00049	EF200377	Holmes Harbor Sewer District	Holmes Harbor Sewer District General Sewer Plan	35,000	Sustainable Planning and Design	Y
WQC-2020-Mattaw-00004	EF200396	Mattawa city of	WWTF Hydrogeological Study	102,750	Sustainable Planning and Design	Y
WQC-2020-Okanog-00079	EF200400	Okanogan city of	Wastewater Facility/General Sewer Plan	105,000	Sustainable Planning and Design	Y
WQC-2020-RitzCi-00127	EF200276	Ritzville city of	Pete's Lift Station Rehabilitation and Overloaded Sanitary Sewer	84,000	Sustainable Planning and Design	N
WQC-2020-RoyalC-00078	EF200313	Royal City city of	Wastewater Facility Plan	75,000	Sustainable Planning and Design	Y
WQC-2020-TwisPW-00073	EF200422	Twisp town of - Public Works	Town of Twisp Wastewater Facility Engineering Report	56,405	Sustainable Planning and Design	Y
WQC-2020-Warden-00025	EF200307	Warden city of	Lift Station No. 2 & Force Main Replacement	15,350	Sustainable Planning and Design	N
WQC-2020-YaCoPS-00155	EF200342	Yakima County - Public Services Department	Buena Wastewater Treatment Facility Improvements	91,460	Sustainable Planning and Design	N
<b>Total</b>				<b>\$ 3,229,090</b>		

## Additional subsidization (ASR) Capitalization Grant Requirement Verification

Since the FFY10 capitalization grant, EPA began authorizing a portion of the capitalization grant be used for additional subsidization in the form of a grant, forgivable principal loans or negative interest rate loans. Each capitalization grant since has established a range (min/max) of the grant that could be used to provide these forms of assistance to recipients. Ecology meets this requirement by disbursing forgivable principal loans. EPA is required to verify Ecology met this requirement before they can close that corresponding capitalization grant. Ecology has provided EPA with backup documentation verifying the amounts disbursed by fiscal year for the FFY10 (CS-53000110), FFY11 (CS-53000111), FFY12 (CS-53000112), FFY13 (CS-53000113) and FFY14 (CS-53000114) capitalization grants (**Table 7**). By the end of SFY19 there were still open funding agreements with forgivable principal yet to be disbursed. Ecology was not yet able to verify compliance for FFY15, FFY16, FFY17, FFY18 and FFY19 until all the agreements are finished spending out and closed.

Table 7: Capitalization grant additional subsidization verification

<b>FFY10/SFY11</b>		<b>FFY11/SFY12</b>		<b>FFY12/SFY13</b>	
AS (min)	\$ 5,307,863.40	AS (min)	\$ 2,380,536.00	AS (min)	\$ 1,364,079.00
<b>FFY10/SFY11</b>		<b>FFY11/SFY12</b>		<b>FFY12/SFY13</b>	
AS (max)	\$ 17,688,153.60	AS (max)	\$ 7,932,552.00	AS (max)	\$ 2,047,347.40
Awarded	\$ 8,544,312.13	Awarded	\$ 2,479,143.46	Awarded	\$ 1,817,471.45
<b>Final Disbursement</b>	<b>\$ 8,544,312.13</b>	<b>Final Disbursement</b>	<b>\$ 2,479,143.46</b>	<b>Final Disbursement</b>	<b>\$ 1,817,471.45</b>
<b>FFY13/SFY14</b>		<b>FFY14/SFY15</b>			
AS (min)	1,093,620.00	AS (min)	1,326,866.00		
AS (max)	1,640,430.00	AS (max)	1,990,299.00		
Awarded	1,626,830.95	Awarded	1,767,782.50		
<b>Final Disbursement</b>	<b>1,626,830.88</b>	<b>Final Disbursement</b>	<b>1,730,538.79</b>		

## Assistance to hardship communities

Ecology is committed to providing financial assistance to hardship communities. **Table 8** outlines the assistance provided in the form of reduced interest rates, forgivable principal loans, and Centennial grants to make these projects more affordable for eight communities.

Table 8: Hardship Assistance Provided in SFY20

Application Number	Loan Number	Recipient	Project Title	Hardship Level	Standard Loan	Interest Rate	Term	Forgivable Principal Loan	Centennial Grant
WQC-2020-Centra-00134	EL200438	Centralia city of	Centralia WWTP Facility General Sewer Phase 1 Improvements	Elevated	\$ 4,124,274	1.5%	20		\$ 2,951,388
WQC-2020-LuTSD-00042	EL200465	Lummi Tribal Sewer and Water District	Gooseberry Point WWTF Improvements Construction	Moderate	\$ 8,833,136	1.7%	20		\$ 4,219,864
WQC-2020-Vadec-00106	EL200403	Vader city of	City of Vader Wastewater Treatment Facility Lagoon Upgrades	Elevated	\$ 2,266,454	2.2%	30		\$ 2,581,576
WQC-2020-YaCoPS-00155	EL200343/EF200342	Yakima County - Public Services Department	Buena Wastewater Treatment Facility Improvements	Elevated	\$ 575,905	0.9%	20	\$ 91,460	\$ 1,453,335
WQC-2017-ChCPUD-00119	EL200374	Chelan County Public Utilities District	Peshastin Wastewater Improvement Project, Part 2	Severe	744,726	1.8%	20		\$412,274

Application Number	Loan Number	Recipient	Project Title	Hardship Level	Standard Loan	Interest Rate	Term	Forgivable Principal Loan	Centennial Grant
WQC-2020-ClaCPW-00040	EL200287/EF200288	Clallam County - Public Works	Clallam Bay - Sekiu Sewer Improvements	Severe	1,865,271	2.0%	20	434,500	3,942,229
WQC-2020-RitzCi-00127	EL200275/EF200276	Ritzville city of	Pete's Lift Station Rehabilitation and Overloaded Sanitary Sewer	Moderate	729,351	2.3%	30	84,000	416,649
WQC-2020-Warden-00025	EL200306/EF200307	Warden city of	Lift Station No. 2 & Force Main Replacement	Moderate	422,863	1.4%	20	15,350	382,487
				<b>Total</b>	<b>\$19,561,980</b>			<b>\$625,310</b>	<b>\$16,359,802</b>



## State Environmental Review Process (SERP) and Federal Cross Cutters

EPA requires Ecology to ensure that all facility design or construction projects receiving funding through the CWSRF meet SERP. In addition, EPA requires that Ecology 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 policy and procedure 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

Table 9: Washington CW Benefits Summary Report for Projects with Water Uses Reporting

Records	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	26.5	19	26.5		19	1.4	0	18
Records with Benefits Data	26.5	19	26.5	11.1	19	1.4	0	18
Impacting Human Health	11.8	5	11.8	5.0	5	1.1	0	5
	45%	26%	45%		26%	94,068*		28%
With Impaired Waterbody			10	3.9	7	0.3	0	7
			38%		37%	28,916*		39%

Records	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	-	-	3	1.2	4	0	0	0
To Improve Water Quality	-	-	18.5	7.9	13	0	0	0
To Maintain Water Quality	-	-	8.0	3.2	6	0	0	0
To Achieve Compliance	-	-	3.0	1.1	6	0	0	0
To Maintain Compliance	-	-	14.2	5.9	11	0	0	0

EPA requires Ecology to provide either an environmental benefit “one-pager” for every loan signed during the fiscal year or a summary report. Table 2 is a summary of each loan executed. Table 9 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 SFY20.

## 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, 2020, the total administrative charge funds deposited into the Administrative Account (564) totaled \$16,633,473.

Ecology used Account (564) to pay for administrative charges totaling \$1,757,830 in SFY20. Between SFY16 and SFY20, Ecology used a total of \$5,319,914 for administrative costs. Ecology plans on using Account (564) for ongoing administration costs and will evaluate the charge to determine what the appropriate rate. Ecology actively manages the Administrative Account by transferring excess funds into Account (727) to fund projects. In June 2019, \$4,500,000 was transferred from fund 564 to 727.

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. 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. The remaining balance of this allocation is \$301,476 as of June 30, 2020.

Table 10: Cumulative Unused Administration Funds from Capitalization Grants

Federal Funds Received (Cumulative Projected Through SFY20)	\$803,876,460
Administration Expenses Allowed (Cumulative Through SFY20)	\$32,156,174
Administration Expended out of Account 727 (Cumulative Through SFY20)	\$29,360,238
Administration Expenses Banked (Cumulative Through SFY20)	\$2,795,936

## Drawing funds from the Capitalization Grant

EPA requires that each capitalization grant be drawn down within two years from when the grant is awarded. At any one time, there should only be at most two capitalization grants with unspent funds. Once Ecology receives a grant, any disbursement requests from sub recipients is paid out of the state match allocated for that grant. Once the state match is 100% disbursed, Ecology then disburses federal grant funds until they are fully expended. This method ensures we meet the federal draw proportionality requirement and disburse all federal funds timely and expeditiously.

As of June 30, 2020, there is \$301,476 remaining balance in FFY19 which includes the match.

## Fund Management and Health of the Account

The CWSRF account balance had grown over the years. By the end of SFY20, the cash balance was \$225.7M. Historically, quarterly revenue into the account from repayments and federal grants has outpaced quarterly expenditures. Ecology actively utilizes 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. We were seeing the cash balance decreasing but over the past year increasing again. One significant contributing factor is a decrease in the rate of disbursements. This may relate partly to the delay in the capital budget and execution of SFY19 agreements. We have also seen an increase in deobligation of existing loan amounts and declines of loans offered to recipients. The impact of Covid-19 on local municipality budgets appears to be creating some project delays and we are amending agreements to push out project completion dates.

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 is considering making some adjustments to its disbursement assumptions and deobligation assumptions to align the cash flow model better with reality, as well as integrating evolving project delay issues. Ecology’s goal is to get the cash balance down to approximately \$60M 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 11 lists the SFY20 project selected as the equivalency project.

Table 11: SFY20 Equivalency Projects

Recipient Name	Application Number	Agreement Number	Final Loan Amount	A/E Procurement Included
King County - Natural Resources and Parks Department	WQC-2019-KCoNRP-00040/WQC-2020-KCoNRP-00021	EL200379	27,631,000	Yes
<b>Total</b>			<b>\$ 27,631,000</b>	

# CWSRF Program Changes and Ongoing Development

## Small Community Support Engineer

Ecology's 2020 Supplemental Budget includes an authorization to hire an added CWSRF small community support engineer. The position will provide direct assistance to small financially and technically challenged communities. The position is currently on hold due to the state hiring freeze as a result of Covid-19.

## 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 the 19-21 biennium with \$1.3 million dollars of program contributions including:

- Cost Allocation.

The project went live on May 1, 2020, and staff have been working to identify and resolve issues to ensure accuracy and integration between EAGL and eHub.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY**  
**CLEAN WATER STATE REVOLVING FUND**  
**Management's Discussion and Analysis for fiscal year 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, 2020. 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) 2019 grant award was \$27,631,000. Ecology matches 20 percent of the grant award with state funds, of \$5,526,200. 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) 2020 was \$120M 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.

### **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, 2020 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, 2020 and the change in the net positions and their cash flows for the year ended. The Column headings on the financial statements indicated which account CWSRF (Loan Activity) or WPCRA (Program Activity) were recorded.

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## Overview of Financial Statements

The financial statements of the CWSRF and WPCRA are presented as a special purpose government engaged only in the 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, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference 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 showing how 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 of the CWSRF

Statement of Net Position	Fiscal Year	
	June 30, 2020	June 30, 2019
<b>ASSETS</b>		
Cash and cash equivalents	\$235,095,535	\$167,870,818
Loans receivable	859,273,250	947,495,785
Other assets	71,336,099	297,520
<b>Total assets</b>	<b>1,165,704,884</b>	<b>1,115,664,123</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>589,640</b>	<b>856,028</b>
<b>LIABILITIES</b>		
Current liabilities	167,037	4,563,976
Noncurrent liabilities	2,078,019	612,511
<b>Total liabilities</b>	<b>2,245,056</b>	<b>5,176,487</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>667,172</b>	<b>1,088,635</b>
<b>NET POSITION</b>		
Restricted	<b>\$1,162,382,296</b>	<b>\$1,110,255,029</b>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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The net position increased from \$1,110,255,029 as of June 30, 2020 to \$1,162,382,296 as of June 30, 2020. This increase is mostly due to an increase in repayments and decrease of loan disbursements. The net position is comprised solely of resources restricted for the CWSRF program. The CWSRF program has no capital assets and no related debt.

During SFY20 the CWSRF total activity cash increased by \$52,127,267, 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 \$3,373,834 in interest to the CWSRF account. The EPA capitalization grant funds provided \$27,329,524, and the State of Washington provided \$ 5,526,200 in matching funds.

The change in loans receivable is caused by more loans being in repayment. Ecology disbursed \$55,534,137 in loans during the year. Ecology received \$68,331,382 in principal payments from borrowers and applied \$2,479,672 in principal forgiveness during the year. Ecology paid \$2,391,090 in administrative expenses to employees, vendors, and for indirect costs.

## Changes in Net Position

	<b>June 30, 2020</b>	<b>June 30, 2019</b>
<b>Changes in Net Position</b>		
<b>REVENUES</b>		
Program revenues:		
Loan interest income	\$14,784,016	\$16,901,799
Loan service fee	5,459,740	4,381,974
General revenues:		
Investment income	3,373,834	2,679,995
<b>Total revenues</b>	<b>\$23,617,590</b>	<b>\$23,963,768</b>
<b>EXPENSES</b>		
Program expenses:		
Administrative expenses	\$1,866,375	\$1,863,246
Principal forgiveness	2,479,672	2,940,982
<b>Total expenses</b>	<b>\$4,346,048</b>	<b>\$4,804,228</b>
<b>Income before contributions</b>	<b>\$19,271,543</b>	<b>\$19,159,540</b>
<b>Capital contributions:</b>		
EPA capitalization grant	27,329,524	28,266,047
State and other contributions	5,526,200	5,582,800
<b>Total capital contributions</b>	<b>32,855,724</b>	<b>33,848,847</b>
<b>Change in net position</b>	<b>\$52,127,267</b>	<b>\$53,008,387</b>
<b>Net position-beginning of year</b>	<b>1,110,255,029</b>	<b>1,057,246,642</b>
<b>Net position - end of year</b>	<b>\$1,162,382,296</b>	<b>\$1,110,255,029</b>



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## **Income for Fiscal Year 2020**

Income before contributions of the CWSRF for SFY19 was \$19,271,543, which includes \$3,373,834 of investment income. 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, the loan service fee, 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 2020, the CWSRF earned \$27,329,524 in federal funds and \$5,526,200 in state matching funds.

## **State Matching Funds**

For SFY 2020, 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 cash match of \$5.6 million.

## **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. SFY20 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 SFY20 (FFY19) the federal capitalization grant was approximately \$32.8 million (including match), which was lower than the previous year. The outlook for ongoing federal funding generally points to reductions in future capitalization grants to the SRF programs. Although capitalization grants are an important source of revenue, the CWSRF has a sound level of repayment and interest income that would sustain the revolving loan fund at a lower level. Ecology uses a cash flow model to project and predict available fund resources each funding year, with a 20-year projected outlook. This model has allowed Ecology to award additional loan funding through available cash resources and includes ongoing repayments, program income, and disbursements. Ecology accounts for possible reductions in the capitalization grant through the model.

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

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## Conclusion

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

## Requests for Information

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

**WASHINGTON STATE DEPARTMENT OF ECOLOGY**  
**CLEAN WATER STATE REVOLVING FUND**  
**Statement of Revenues, Expenses, and Changes In Net Position**  
**for the year ended June 30, 2020**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>June 30, 2020</b>
<b>ASSETS</b>	
<b>Current assets</b>	
Cash and cash equivalents	\$235,095,535
Receivables:	
Due from federal government	4,591
Due from other funds	270,637
Loans receivable	70,060,871
<b>Total current assets</b>	<b>305,431,634</b>
<b>Noncurrent Assets</b>	
Loans receivable	859,273,250
<b>Total noncurrent assets</b>	<b>859,273,250</b>
<b>Total assets</b>	<b>1,164,704,884</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Resources for pensions	495,804
Resources for OPEB	93,836
<b>Total deferred outflows of resources</b>	<b>589,640</b>
<b>Total assets and deferred outflows of resources</b>	<b>1,165,294,524</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable and accrued expenses	50,974
Due to other funds	107,333
Total OPEB Liability	8,730
<b>Total current liabilities</b>	<b>167,037</b>
<b>Noncurrent Liabilities</b>	
Unearned Revenue	1,431,141
Net Pension Liability	149,326
Total OPEB Liability	497,552
<b>Total noncurrent liabilities</b>	<b>2,078,019</b>
<b>Total liabilities</b>	<b>2,245,056</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Resources on Pensions	485,727
Resources on OPEB	181,445
<b>Total deferred inflows of resources</b>	<b>667,172</b>
<b>NET POSITION</b>	
Restricted	1,155,691,597
Restricted for Pension and OPEB	(845,118)
Committed	7,535,817
<b>Total net position</b>	<b>1,162,382,296</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$1,165,294,524</b>

The accompanying notes are an integral part of the financial statement

**WASHINGTON STATE DEPARTMENT OF ECOLOGY**  
**CLEAN WATER STATE REVOLVING FUND**  
**Statement of Revenues, Expenses, and Changes In Net Position**  
**for the year ended June 30, 2020**

	<b>June 30, 2020</b>
<b>OPERATING REVENUE</b>	
Loan interest income	14,784,016
Loan service fee	5,459,740
<b>Total operating revenue</b>	<b>20,243,756</b>
<b>OPERATING EXPENSES</b>	
Personnel services	1,321,177
Other expenses	545,198
Loan Principal Forgiveness expense	2,479,672
<b>Total operating expenses</b>	<b>4,346,047</b>
<b>INCOME FROM OPERATIONS</b>	<b>15,897,709</b>
<b>NONOPERATING REVENUE (EXPENSE)</b>	
Net investment income	3,373,834
<b>Total nonoperating revenue (expense)</b>	<b>3,373,834</b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<b>19,271,543</b>
<b>CONTRIBUTIONS</b>	
EPA capitalization grant	27,329,524
State match revenue	5,526,200
Transfer Out	
<b>Total Contributions</b>	<b>32,855,724</b>
<b>CHANGE IN NET POSITION</b>	<b>52,127,267</b>
<b>NET POSITION-Beginning of year</b>	1,110,255,029
<b>NET POSITION - END OF YEAR</b>	<b>1,162,382,296</b>

The accompanying notes are an integral part of the financial statements

**WASHINGTON STATE DEPARTMENT OF ECOLOGY**  
**CLEAN WATER STATE REVOLVING FUND**  
**Statement of Cash Flows for the year ended June 30, 2020**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>June 30, 2020</b>
Cash paid to employees and vendors	(\$2,391,090)
Cash Received from Interest on Loans	15,129,264
Loan Service Fee	5,459,740
Loans Disbursed	(55,534,137)
Principal received on Loans Receivable	68,331,382
<b>Net Cash flows provided (required) by operating activities</b>	<b>30,995,159</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Funds received from EPA	27,329,524
Funds received from the state of Washington	5,526,200
<b>Net Cash flows provided (Required) by noncapital operating activities</b>	<b>32,855,724</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Net investment income received	3,373,834
<b>Net Cash Provided (Required) by Investing Activities</b>	<b>3,373,834</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>67,224,717</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR, as previously stated</b>	<b>167,870,818</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>235,095,535</b>
<b>Reconciliation of operating income to net cash required by operating activities</b>	
Income from Operations	15,897,709
<b>Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:</b>	
<b>Changes In Assets: Decrease (Increase)</b>	
Loans Receivable	18,161,664
Interest Receivable	272,682
Due from Other Funds	(247,343)
Due from Fed Government	(3,047)
<b>Change in Deferred Outflows of Resources: (Increase) Decrease</b>	266,388
<b>Changes In Liabilities: Increase (Decrease)</b>	
Accounts Payable and Accrued Expenses	(103,154)
Due to other funds	9,002
Due to Federal Government	(68,194)
Pension & OPEB Liabilities	43,097
Unavailable Revenue	(2,812,182)
<b>Change in Deferred Inflows of Resources: Decrease (Increase)</b>	(421,463)
<b>Net Cash Provided (Required) by Operating Activities</b>	<b>\$30,995,159</b>

## Note 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 \$803,876,460 in capitalization grants from 1989 through June 30, 2020. The State match share for that awarded amount is \$147,146,027.

The Account is administered by the Ecology through the Water Quality Program (WQP). The WQP's primary responsibilities for the CWSRF includes obtaining capitalization grants from EPA, soliciting potential interested parties, negotiating loan agreements with local communities, reviewing and approving payment requests from loan recipients, managing the loan repayments, and conducting inspection and engineering reviews to ensure compliance with all applicable laws, regulations, and program requirements.

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

# WASHINGTON STATE DEPARTMENT OF ECOLOGY

## CLEAN WATER STATE REVOLVING FUND

### Notes to the Financial Statements for fiscal year 2020

## 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, 2020 there were no new GASB standards that impact this fund.

## 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.

# WASHINGTON STATE DEPARTMENT OF ECOLOGY

## CLEAN WATER STATE REVOLVING FUND

### Notes to the Financial Statements for fiscal year 2020

#### Forgivable Principal

During the June 30, 2012 fiscal year, the federal Appropriations Act of 2011 was passed by Congress. This Act authorized some of the same requirements that were introduced in the American Recovery and Reinvestment Act of 2010. One of these requirements is forgivable principal hardship loans. The maximum forgivable principal loan amount for each hardship recipient is \$5 million. Ecology disbursed \$2,940,982 in forgivable principal loans during the years ended June 30, 2020, 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.



WASHINGTON STATE DEPARTMENT OF ECOLOGY

CLEAN WATER STATE REVOLVING FUND

Notes to the Financial Statements for fiscal year 2020

Note 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, 2020, total Treasurer’s invested balance of the Treasury/Trust Fund Portfolio was \$8.7 billion. Details of the investments can be obtained from the State Treasurer’s Office.

The OST reports investments held for U.S. government and agency debt securities at fair value. OST categorizes the fair value measurements of these investments within the fair value hierarchy established by generally accepted accounting principles as Level 2 investments, as they are valued using observable inputs including quoted prices for similar securities and interest rates. All other investments are reported at amortized cost.

The necessary disclosures for the State’s pooled investment program are included in the Comprehensive Annual Financial Report of the State of Washington.

	<u>Carrying Amount</u>	<u>Market Value</u>
Treasury/Trust Portfolio June 30, 2020	<u>\$225,776,861</u>	<u>\$225,776,861</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:

	<b>2020</b>
CWSRF Securities on loan:	
Fair Value	<u>\$ 6,990,748</u>
*Cash Collateral held by CWSRF:	
Fair Value	<u>0</u>
Reported Value	<u>0</u>
OST Securities on loan:	
Fair Value	<u>329,495,950</u>
Cash Collateral held by OST	
Fair Value	<u>4,649,369,428</u>
Reported Value	<u>4,649,369,428</u>

Revised Code of Washington (RCW) 43.84.080, contract dated September 1, 2017 between the OST and Northern Trust Company that runs through August 31, 2021. There were no violations of legal or contractual provisions.

The OST lending agent lends US Treasury securities, US Agency securities, and supranational securities and receives collateral, which can be in the form of cash or other securities. The

# WASHINGTON STATE DEPARTMENT OF ECOLOGY

## CLEAN WATER STATE REVOLVING FUND

### Notes to the Financial Statements for fiscal year 2020

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 and deposit accounts 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, 2020 investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$225,776,861 book value and \$329,495,950 book value.

On June 30, 2020 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 2020, 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.

### Note 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 2020 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, 2020 the Account had total new binding commitments of \$101,971,273, 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 \$803,876,460 and \$776,245,460 as of June 30, 2019. Loan obligations as of June 30, 2020, which include state matching requirements and principal and interest collected from repayment, were \$2,028,746,241.

In fiscal year 2020 an adjustment to the State Agency Financial Reporting System was made to correct an overpayment by the City of Olympia of \$72,564.

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**CLEAN WATER STATE REVOLVING FUND**

**Notes to the Financial Statements for fiscal year 2020**

**Loans by Category**

<b>Fiscal Year 2020</b>	<b>Loan Authorized</b>	<b>Remaining Commitment</b>	<b>Receivable Balances</b>
Completed projects	\$1,352,189,624	513,504,404	\$838,685,219
Projects in progress	332,237,519	241,588,617	90,648,902
Total			929,334,121
Payment requests in progress (Received as of June 30, 2020, but not yet paid)			0
Less amount due in one year			70,060,871
Loans receivable, June 30, 2020 (Net of current maturities)			\$859,273,250

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>
2021	17,442,751	67,663,070	85,105,821
2022	16,194,728	66,962,133	83,156,861
2023	14,953,395	64,685,716	79,639,110
2024	13,724,014	64,297,981	78,021,995
2025	12,490,147	61,351,096	73,841,244
2026-2030	44,641,036	258,837,211	303,478,247
2031-2035	18,408,575	186,241,795	204,650,370
2035-2040	2,338,767	68,646,216	70,984,9837
Total	\$140,193,412	\$838,682,219	\$978,878,631
Loans not yet in repayment		90,648,902	
Total loans receivable		\$929,334,121	

**Loans to Major Local Entities**

As of June 30, 2020, 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, 2020 represent approximately 35.0 percent of the total loans receivable and are as follows:

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<u><b>Borrower</b></u>	<b>2020</b>	
	<b>Authorized Loan Amount</b>	<b>Outstanding Loan Balance</b>
King County Department of Natural Resources	\$365,068	\$393,832
Oak Harbor	100,521	110,040
Spokane City of	106,592	113,319
<b>Total</b>	<b>\$572,181</b>	<b>\$617,1912</b>

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.

### **Note 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 \$803,876,460 in grants to the State, of which approximately \$803,876,460 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$147,170,055 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)

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<b>Year</b>	<b>Grant Award</b>	<b>Funds drawn as of June 30, 2019 &amp; prior</b>	<b>Funds drawn during year Ended June 30, 2020</b>	<b>Funds drawn as of June 30, 2020</b>	<b>Available for loans as of June 30, 2020</b>
89-2009	476,311	476,311		476,311	\$ 0
2010	35,433	35,433		35,433	0
2011	25,680	25,680		25,680	0
2012	24,578	24,578		24,578	0
2013	23,247	23,247		23,247	0
2014	24,383	24,383		24,383	0
2015	24,258	24,258		24,258	0
2016	23,235	23,006		23,235	0
2017	23,056	22,931		23,056	0
2018	27,912	27,912		27,912	0
2019	27,631		27,131	27,131	0
<b>Total</b>	<b>735,724</b>	<b>708,093</b>	<b>27,131</b>	<b>735,224</b>	<b>0</b>
2008-	68,152	68,152	0	68,152	0
<b>Total</b>	<b>\$803,876</b>	<b>\$776,245</b>	<b>27,131</b>	<b>\$803,376</b>	<b>\$0</b>

	<b>State Match applied as of June 30, 2020</b>	<b>State Match applied during year ended June 30, 2020</b>	<b>State Match applied as of June 30, 2020</b>
State Disbursed	\$147,170	\$5,526	\$147,170
		Drawn	State Match

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.

### **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, 2020</b>
Administrative fee collected	5,459,740
Interest on admin fee collected	78,636
	<u>\$5,538,377</u>
Operating expenses incurred	<u>(\$1,757,830)</u>

WASHINGTON STATE DEPARTMENT OF ECOLOGY

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## Note 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, 2020 Comprehensive Annual Financial Reports.

## Note 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, 2020, 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, 2020

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 2/3	149,326	495,804	485,727

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 [DRS Annual Financial Reports](#).

## Note 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);

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### Notes to the Financial Statements for fiscal year 2020

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 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.

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The employer contribution rate for the Clean Water State Revolving Program at the close of fiscal year 2020 for each of Plans 1, 2, and 3 was 12.86 percent.

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, 2020, was 7.90 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.



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Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2018, with the results rolled forward to June 30, 2019, 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, 2018, 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 2018 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.

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, 2019, are summarized in the following table:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	20%	2.2%
Tangible assets	7%	5.1%
Real estate	18%	5.8%
Public equity	32%	6.3%
Private equity	23%	9.3%
Total	100%	

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 7.00 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 7.00 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 7.00 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability/(asset) of the employers, calculated using the discount rate of 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

**Employers' Proportionate Share of Net Pension Liability/(Asset)**

	PERS 2/3
1% Decrease	\$1,145,275
Current Discount Rate	\$149,326
1% Increase	(\$667,915)

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Net Pension Liability

At June 30, 2020, the Clean Water State Revolving Program reported a liability of \$149,326 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 .029 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, 2020, a pension expense of \$126,658 was recognized for PERS 2/3.

At June 30, 2020, PERS 2/3 reported deferred outflows and inflows of resources related to pensions from the following sources:

Deferred Outflows and Inflows of Resources		
June 30, 2020		
PERS 2/3	Outflows	Inflows
Difference between expected and actual experience	\$42,782	\$32,104
Changes of assumptions	\$3,824	62,652
Net difference between projected and actual earnings on pension plan investments		\$217,359
Changes in proportionate share of contributions	\$306,715	\$173,612
Contributions subsequent to measurement date	\$142,483	
<b>Total</b>	<b>\$495,804</b>	<b>\$485,727</b>

Pension contributions made subsequent to the measurement date in the amount of \$142,483 PERS 2/3, was reported as deferred outflows and inflows respectively of resources at June 30, 2020, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2020.

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

Net Deferred Outflows and (Inflows) of Resources	
Fiscal Year ended June 30,	
PERS 2/3	
2021	(50,970)
2022	(81,366)
2023	(19,283)
2024	3,712
2025	(7,052)
Thereafter	(22,553)

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## CLEAN WATER STATE REVOLVING FUND

### Notes to the Financial Statements for fiscal year 2020

## 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.

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

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and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2018, the average weighted implicit subsidy was valued at \$347 per member per month, and in calendar year 2019, the average weighted implicit subsidy is projected to be \$367 per adult unit per month. In calendar year 2020, the average weighted implicit subsidy is projected to be \$373 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 2018 and 2019, the explicit subsidy was \$168 per member unit per month, This was increased in calendar year 2020 to \$183 per member per month. It is projected to remain at \$183 per member per month in 2021.

Administrative costs, as well as implicit and explicit subsidies, are funded by required contributions (RCW 41.05.050) 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 the [Washington State Legislature OPEB valuations](#).

## Total OPEB Liability

As of June 30, 2020 the Clean Water State Revolving Program reported a total OPEB liability of \$506,282.

## 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.

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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.</i>	
<i>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 2021 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

	<u>Ecology</u>
1% Decrease	409,758
Current Discount Rate	506,282
1% Increase	636,188

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 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.

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Actuarial Assumptions

The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	6/30/2019
Actuarial Measurement Date	6/30/2019
Actuarial Cost Method	Entry Age
Amortization Method	9 years
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 3.87 percent for the June 30, 2018 measurement date and 3.5 percent for the June 30, 2019 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 3.5 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 (2.5 percent) or one percentage point higher (4.5 percent) than the current rate.

Sensitivity of the Discount Rate	
OPEB Liability	
1% Decrease	613,090
Current Discount Rate	506,282
1% Increase	423,323

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, 2020	
	Ecology
Total OPEB Liability-Beginning	472,368
Changes for the year:	0
Service cost	20,500
Interest cost	17,782
Differences Between Expected and Actual Experience	0
Changes of assumptions*	33,115
Benefit payments	(8,134)
Changes in proportionate share	(29,349)
Net Change in Total OPEB Liability	33,914
<b>Total OPEB Liability-Ending</b>	<b>506,282</b>

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

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**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 2020. The Clean Water State Revolving Program’s will recognize OPEB expense of \$14,680.

**Proportionate Share of OPEB Expense  
Ending June 30, 2020**

	Ecology
Current year allocated Costs:	
Service cost	20,500
Interest cost	17,782
Amortization of Differences between Expected and Actual Experience	1,931
Amortization of changes of assumptions	(18,540)
Amortization of changes in proportion	1,737
Transactions subsequent to the measurement date	(8,730)
<b>Total OPEB Expense</b>	<b>14,680</b>

\*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.

For fiscal year 2020 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:

**Deferred Outflows and Inflows of Resources  
June 30, 2020**

OPEB	Outflows	Inflows
Difference between expected and actual experience	13,519	
Changes of assumptions	29,436	146,793
Transactions subsequent to the measurement date	8,730	
Changes in Proportion	42,151	34,652
<b>Total</b>	<b>93,836</b>	<b>181,445</b>

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, 2020.



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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:

	<u>Ecology</u>
2021	(14,872)
2022	(14,872)
2023	(14,872)
2024	(14,872)
2025	(14,872)
Thereafter	(21,979)

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 Office of Financial Management Comprehensive Annual Financial Report.

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**Required Supplementary Information for fiscal year 2020**

RSI

Required Supplementary Information

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**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>2019</b>	<b>2018</b>	<b>2017</b>
SRF's PERS Plan 2/3 employers' proportion of the net pension liability/(asset)	0.03%	0.02%	0.03%
SRF's PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset)	\$485,727	\$472,368	\$514,378
SRF's PERS Plan 2/3 employers' covered-employee payroll	\$1,594,331	\$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	8.97%	16.43%	35.39%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	97.77%	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>2020</b>	<b>2019</b>	<b>2018</b>
Contractually Required Contributions	\$ 135,845	\$67,154	\$ 114,728
Contributions in relation to the contractually required contributions	135,845	67,154	114,728
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered-employee payroll	\$ 1,720,750	\$890,443	\$ 1,544,694
Contributions as a percentage of covered-employee payroll	7.89%	7.54%	7.43%
* This schedule is to be built prospectively until it contains ten years of data.			

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**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, 2017, valuation date, completed in the fall of 2018, determined the ADC for the period beginning July 1, 2019, and ending June 30, 2021.

**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.

**OTHER POSTEMPLOYMENT BENEFITS INFORMATION**

<b>Schedule of Changes in Total OPEB Liability and Related Ratios</b>			
As of the Measurement Date June 30*			
<b>Total OPEB Liability</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Service cost	\$ 20,500	\$ 29,533	\$ 33,611
Interest	17,782	20,304	15,743
Changes in benefit terms	0	0	0
Difference between expected and actual experience	0	18,533	0
Changes in assumptions	33,115	(129,292)	(76,797)
Benefit payments	(8,134)	(8,575)	(8,024)
Other	(29,349)	46,089	2,949
<b>Net Changes in Total OPEB Liability</b>	<b>33,914</b>	<b>(23,408)</b>	<b>(32,518)</b>
<b>Total OPEB Liability - Beginning</b>	<b>472,368</b>	<b>495,775</b>	<b>528,293</b>
<b>Total OPEB Liability - Ending</b>	<b>\$ 506,282</b>	<b>\$ 472,367</b>	<b>\$ 495,775</b>
<b>Covered payroll</b>	<b>\$ 374,396</b>	<b>\$ 349,315</b>	<b>\$ 670,419</b>
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<b>66.55%</b>	<b>60.53%</b>	<b>73.95%</b>
*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.			
Note: Figures may not total due to rounding			

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**Notes to Required Supplementary Information**

The Public Employee's Benefits Board OPEB plan does not have assets in trusts or equivalent arrangements and 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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**Comparative Activity of Net Position as of June 30, 2020**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$235,095,534	\$167,870,818
Receivables:		
Due from federal government	4,591	1,544
Due from other funds	270,637	295,976
Loans Receivable	70,060,871	68,195,542
<b>Total current assets</b>	<b>305,431,634</b>	<b>236,363,880</b>
<b>Noncurrent Assets:</b>		
Loans Receivable	859,273,250	879,300,243
<b>Total other assets</b>	<b>859,273,250</b>	<b>879,300,243</b>
<b>Total Assets</b>	<b>1,164,704,884</b>	<b>1,115,664,123</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Resources for Pensions	495,804	301,345
Resources for OPEB	93,836	554,683
<b>Total Deferred Outflows of Resources</b>	<b>589,640</b>	<b>856,028</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>1,165,294,524</b>	<b>1,116,520,151</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>		
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	50,975	154,128
Due to other funds	107,333	98,331
Due to Federal Government		68,194
Unavailable Revenue		4,243,323
Total OPEB Liability	8,730	
Obligation Under Security Lending Agreement		
<b>Total current liabilities</b>	<b>167,038</b>	<b>4,563,976</b>
<b>Noncurrent Liabilities:</b>		
Unearned Revenue	1,431,141	
Net Pension Liability	149,326	140,143
Total OPEB Liability	497,552	472,368
<b>Total noncurrent liabilities</b>	<b>2,078,019</b>	<b>612,511</b>
<b>Total Liabilities</b>	<b>2,245,056</b>	<b>5,176,487</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Resources on Pensions	485,727	427,109
Resources on OPEB	181,445	661,526
<b>Total Deferred Inflows of Resources</b>	<b>653,945</b>	<b>1,088,635</b>
<b>NET POSITION</b>		
Restricted	1,155,691,597	1,110,255,029
Restricted for Pension and OPEB	(845,118)	
Committed	7,535,817	
<b>Total Net Position</b>	<b>1,162,382,296</b>	<b>1,110,255,029</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>1,165,294,524</b>	<b>1,116,520,151</b>

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**Comparative Activity of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2020**

	2020	2019
<b>OPERATING REVENUE</b>		
Loan interest income	14,784,016	16,901,799
Loan service fee	5,459,740	4,381,974
<b>Total operating revenue</b>	<b>20,243,757</b>	<b>16,901,799</b>
<b>OPERATING EXPENSES</b>		
Personnel services	1,321,177	1,248,917
Other expenses	545,198	614,329
Loan Principal Forgiveness expense	2,479,672	2,940,982
<b>Total operating expenses</b>	<b>4,346,048</b>	<b>4,804,227</b>
<b>INCOME FROM OPERATIONS</b>	<b>15,897,709</b>	<b>16,479,545</b>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Net investment income	3,373,834	2,679,995
<b>Total non-operating revenue (expense)</b>	<b>3,373,834</b>	<b>2,679,995</b>
<b>INCOME BEFORE CONTRIBUTIONS</b>	<b>19,271,543</b>	<b>19,159,540</b>
<b>CONTRIBUTIONS</b>		
EPA capitalization grant	27,329,524	28,266,047
State match revenue	5,526,200	5,582,800
Transfer Out		
<b>Total contributions</b>	<b>32,855,724</b>	<b>33,848,847</b>
<b>CHANGE IN NET POSITION</b>	<b>52,127,267</b>	<b>53,008,387</b>
<b>NET POSITION-Beginning of year</b>	1,110,255,029	1,057,246,642
<b>NET POSITION - END OF YEAR</b>	<b>1,162,382,296</b>	<b>1,110,255,029</b>



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**Comparative Activity of Cash Flows for Year Ending June 30, 2020**

	<b>2020</b>	<b>2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash paid to employees and vendors	(\$2,391,090)	(\$1,920,593)
Cash Received from Interest on Loans	15,129,263	16,901,799
Loan Service Fee	5,459,740	
Loans Disbursed	(55,534,137)	(76,086,690)
Principal received on Loans Receivable	68,331,382	62,360,047
<b>Net Cash flows provided (required) by operating activities</b>	<b>30,995,158</b>	<b>1,254,563</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Funds received from EPA	27,329,524	28,266,047
Funds received from the state of Washington	5,526,200	5,582,800
Loan Services		4,381,973
<b>Net Cash flows provided (Required) by noncapital operating activities</b>	<b>32,855,724</b>	<b>38,230,820</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net investment income received	3,373,834	2,679,995
<b>Net Cash Provided (Required) by Investing Activities</b>	<b>3,373,834</b>	<b>2,679,995</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	67,224,716	42,165,378
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR, as previously stated</b>	167,870,818	125,705,440
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	235,095,534	167,870,818
<b>Reconciliation of operating income to net cash required by operating activities</b>		
Income from Operations	15,897,709	12,097,572
<b>Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:</b>		
Prior Period Adjustment	0	
<b>Changes In Assets: Decrease (Increase)</b>		
Loans Receivable	18,161,664	(9,509,498)
Interest Receivable	272,682	0
Due from Other Funds	(247,343)	(138,205)
Due from Fed Government	(3,047)	(1,544)
<b>Change in Deferred Outflows of Resources: (Increase) Decrease</b>	266,388	(301,199)
<b>Changes In Liabilities: Increase (Decrease)</b>		
Accounts Payable and Accrued Expenses	(103,154)	101,070
Due to other funds	9,002	4,495
Due to Federal Government	(68,194)	68,194
Pension & OPEB Liabilities	46,097	(397,642)
Unavailable Revenue	(2,812,182)	(1,276,163)
<b>Change in Deferred Inflows of Resources: Decrease (Increase)</b>	(434,690)	607,483
<b>Net Cash Provided (Required) by Operating Activities</b>	<b>\$30,995,158</b>	<b>\$1,254,563</b>

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**Disbursements and Accruals for the year ended June 30, 2020**

	SFY 2020	Federal	State- Match	State- Repmt- Other	564 Acct
2020 Disbursements of Loans	32,657,201	27,131,001	5,526,200	22,876,936	
2020 Disbursements for Admin	1,956,354	198,523	-	-	1,757,830
<b>Total Disbursements</b>	<b>34,613,555</b>	<b>27,329,524</b>	<b>5,526,200</b>	<b>22,876,936</b>	
2020 Cash Draw from Capitalization Grants	(27,329,524)				
2020 State Match (20% of Cash Draws)	(5,526,200)				
2020 100% State Fund Disbursements	22,876,936				
<b>Total Disbursements Loan, Admin, Fed and State</b>	<b>57,490,491</b>				
Percentage of Cash Draw from Capitalization Grants to Total Disbursements	78.96%				
<b>Admin Calculation</b>	<b>5.95%</b>				