



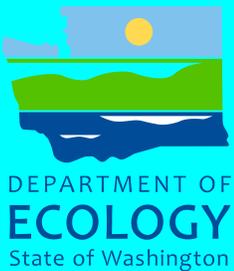
Annual Report

Washington's Clean Water State Revolving Fund (CWSRF)

*For State Fiscal Year 2015
July 1, 2014 – June 30, 2015*

Submitted to the
U.S. Environmental Protection Agency

Publication no. 15-10-043
October 2015



Publication and Contact Information

This report is available on the Department of Ecology's website at <https://fortress.wa.gov/ecy/publications/SummaryPages/1510043.html>

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Annual Report
Washington State Clean Water Revolving Fund
(CWSRF)

Water Quality Program – Financial Management Section
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Olympia, Washington 98504-7710

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Executive Summary

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

As of June 30, 2015, Ecology's CWSRF program had received a total of \$677,784,460 in U.S. Environmental Protection Agency (EPA) capitalization grants. Since the inception of the program in 1988, Ecology has made net binding loan commitments totaling \$1,555,955,959.

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 2015 (SFY15) 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 SFY15 (July 1, 2014, through June 30, 2015).

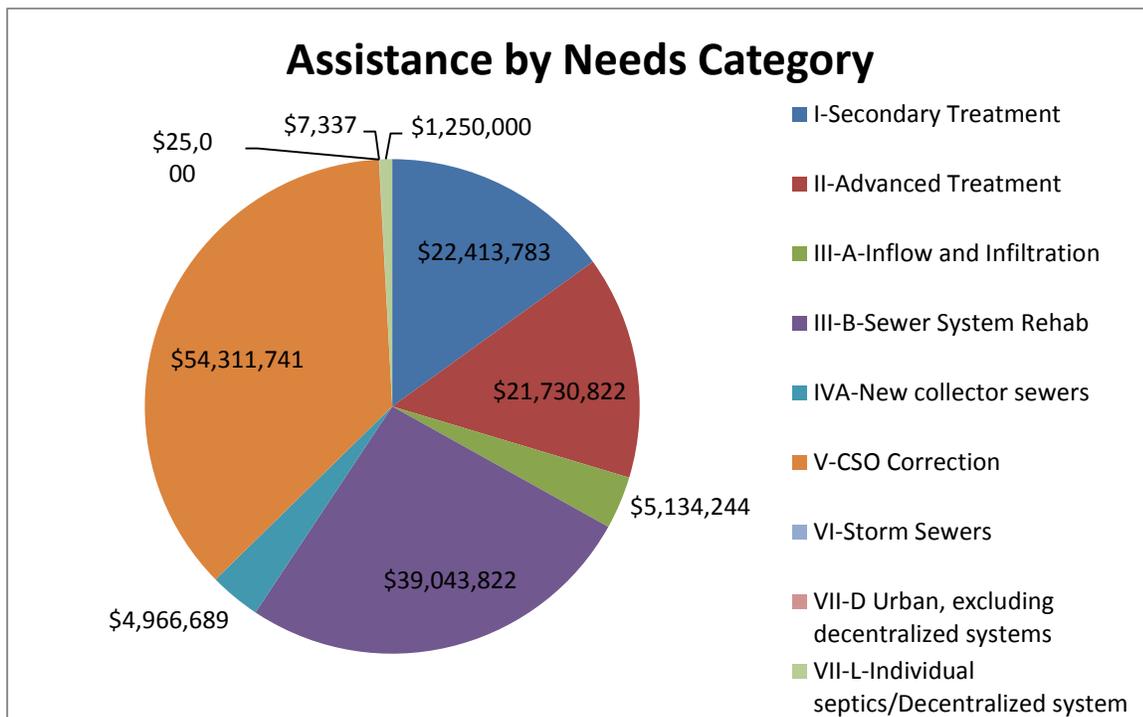
The SFY15 IUP described the intended uses of the funds available in the CWSRF loan program and detailed how the CWSRF program planned to commit available funds. Eligible entities submitted funding applications as part of Ecology's Water Quality Program (WQP) combined application process by December 4, 2013. 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 2015 Water Quality Financial Assistance* Publication #13-10-041. 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 50 applications for over \$265M in loans for the SFY15 funding.

Ecology used the Federal Fiscal Year (FFY) 2014 appropriation of \$24,383,000 as the capitalization grant for the SFY15 IUP. Ecology set the SFY15 CWSRF program capacity at \$180M. In addition to the EPA capitalization grant, CWSRF program funds came from a required state match of 20 percent of the grant (\$4,876,600), principal repayments, and interest and investment earnings.

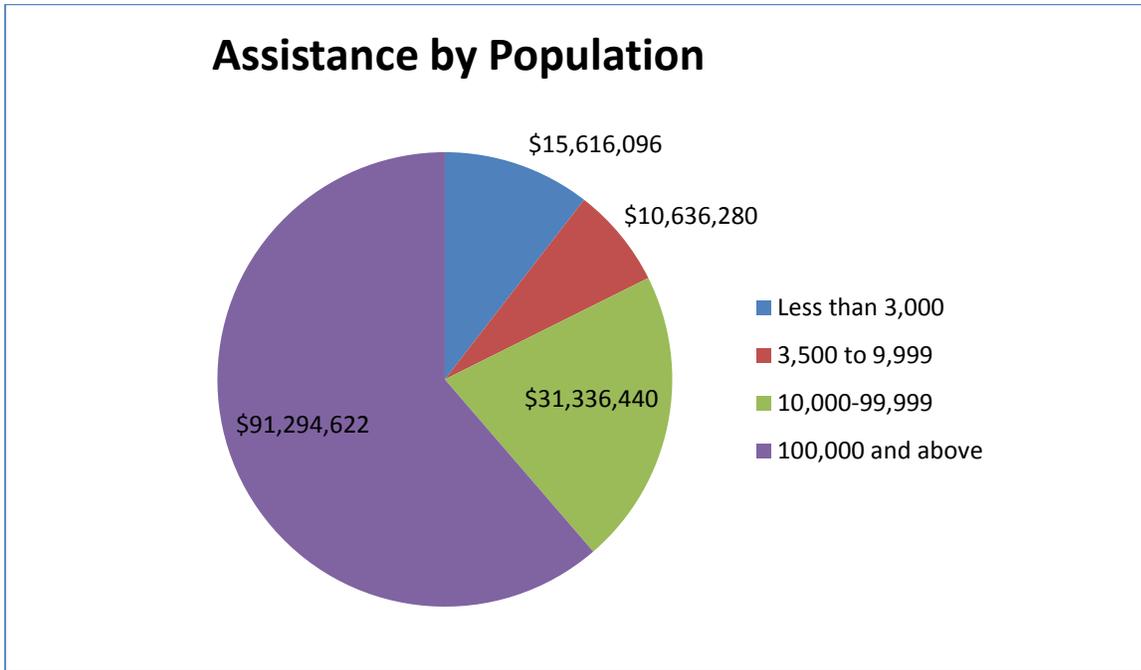
For SFY15, Ecology issued binding commitments for 36 projects totaling \$148,883,438. The weighted interest for these agreements is 2.512 (52 percent of the market rate for tax-exempt municipal bonds). Of these binding commitments, \$1,787,869 was provided in the form of forgivable principal (loans that don't have to be repaid). The FFY14 capitalization grant (cap grant) set a minimum of \$1,326,866 and a maximum of \$1,990,299 for forgivable principal loans.

The FFY14 capitalization grant required Ecology to award 10 percent of the federal cap grant (\$2.438M) to projects or project elements that fit within one or more of the Green Project Reserve (GPR) categories. These categories include: environmentally innovative, water efficiency, energy efficiency and green infrastructure. Ecology awarded \$6,933,230 or 28 percent of the cap grant to GPR projects or project elements, easily meeting this requirement.

The following graph shows assistance provided by water quality needs category. A total of 99 percent of the funds in SFY15 are being used for 212 projects (wastewater projects) and one percent for 319 (nonpoint activity projects). Of these projects, \$77M are categorized as 320 projects that are within the National Estuary Program boundary.



The following graph shows the assistance provided across population categories. Because Ecology funded several large projects in King and Spokane County in SFY15, 61 percent of the CWSRF funds supported projects in the population category of 100,000 and above.



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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 implemented an administrative charge that went into effect December 2013. The administrative charge sets Ecology on track to self-sustainable administration of the CWSRF into perpetuity.

Each year Ecology combines the EPA capitalization grant with the state match, principal and interest repayments, received investment earnings and any de-obligated or declined funds to provide loans to public bodies for water quality projects across the state. Most of the funding available consists of principal and interest repayments.

Uses of funds

The CWSRF is a key funding source used to advance the water quality goals of EPA and Ecology's WQP. The goals of the WQP and the CWSRF are to prevent and clean up water pollution and help communities make sustainable choices by providing technical and financial assistance for high priority water quality efforts.

Ecology ensures that funded projects are consistent with the goals of Sections 212, 319, and 320 of the CWA, including the State's Section 320 Estuary Plan (Puget Sound Action Agenda), and Washington's Water Quality Management Plan to Control Nonpoint Source Pollution.

Ecology manages the CWSRF along with the state-funded Centennial Clean Water Program (Centennial) and the CWA Section 319 Nonpoint Source Grant Program (Section 319). Ecology makes every attempt to integrate and streamline the three funding programs. This approach

provides significant program savings and efficiencies for Ecology, its clients, and its stakeholders. Beginning with the SFY16 funding cycle, Ecology integrated state funding provided for stormwater projects into its combined water quality funding process.

State fiscal year and federal fiscal year

Washington State has a biennial budget cycle that spans two fiscal years and includes two funding cycles. The SFY runs from July 1 – June 30. The FFY runs from October 1 – September 30. Due to the differences in the fiscal years and budget cycles, there may be up to a nine month lag from the time Congress passes the federal budget to when the Washington State Legislature approves the state budget and appropriations authorizing Ecology to utilize the funds. So the FFY14 capitalization grant is administered in the SFY15 funding cycle.

What's in this report

This report discusses how Ecology administered the CWSRF FFY14 capitalization grant, state match, and principal and interest repayments during SFY15. 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 FFY14 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY15.
- Presents a Management Discussion and Analysis section providing CWSRF financial statements.
- Includes several exhibits containing the unaudited financial statements of the CWSRF for SFY15.

Ecology and the Water Quality Program's Goals and Objectives and Progress Made

The overall mission of Ecology is to protect, preserve, and enhance the State's environment and promote the wise management of our air, land, and water. In addition, the mission of Ecology's WQP is to:

- Prevent and clean up water pollution.
- Help communities make sustainable choices that reduce and prevent water quality problems.
- Provide water quality partners with technical and financial assistance for high priority water quality projects.

The following ten short- and long-term goals help achieve the overall mission of Ecology and the WQP through the financial assistance programs.

Goal 1

Identify and fund the highest priority water quality projects statewide.

Objectives and progress

- 1) Communicate with internal, regional Ecology experts to identify water quality priorities.
 - Regional project managers and engineers review and evaluate funding applications. Ecology holds mandatory internal evaluator training sessions each year to ensure consistency and funding of the highest priority water quality projects. Ecology also holds a post-application evaluation meeting to further disseminate information on scoring consistency and objectivity before tabulating the final scores.
 - Ecology regional project managers work closely with the headquarters Financial Management Section and coordinate with staff specializing in total maximum daily loads (TMDL) and permitting during the application review and evaluation process.
- 2) Coordinate with external partners, including advisory groups and state, federal, and local governments for input on water quality priorities.
 - Ecology evaluates and assesses its funding application each year before opening the application cycle to ensure it reflects the current state and federal priorities.
 - Ecology provides project proposals to numerous external stakeholders for review and comment prior to developing the Draft Funding Offer List and Intended Use Plan (Draft IUP) and project priorities. External stakeholders consulted include, but are not limited to, the following: Puget Sound Partnership; Washington State Conservation Commission; Washington State Department of Health (DOH); and Washington State Department of Commerce, Public Works Board.

- 3) Expand the universe of sources providing input on priorities by expanding outreach to include tribes, conservation districts, and other organizations.
 - CWSRF staff met with representatives from The Trust for Public Land to discuss opportunities to increase awareness that CWSRF funds are available for the purchase of land that would result in water quality protection.
 - Presented information on the financial assistance programs at the Washington Association of Sewer and Water Districts commissioners meeting.
 - Presented information on the financial assistance programs at a Webinar and to Public Works Board “Regional Academy” meetings where local officials are invited to talk about various local topics and learn about financing options available to achieve local project goals.
 - Presented at the Washington Operator Workshop (WOW) Conference.
 - Presented information about funding opportunities at the Infrastructure Assistance Coordinating Council (IACC) annual conference which includes information about all eligible funding categories.
- 4) Provide priority rating consideration for communities to meet state and federal requirements for wastewater and stormwater facilities.
 - In its rating system, Ecology awards up to 10 percent (100 points) of the total rating points based on how a proposal meets state and federal requirements.
- 5) After meeting other obligations, set aside one-third of the Centennial Program and 20 percent of the CWSRF for nonpoint source pollution control projects.
 - In SFY15 Ecology set aside 20 percent of CWSRF (\$35,460,000), 33 percent of Centennial grant dollars (\$7,333,333), and 100 percent of Section 319 grant dollars (\$1,568,600) to provide funding for activity projects that seek to reduce or prevent nonpoint sources of pollution.
 - In SFY15, Ecology’s Centennial grants, and Section 319 grants provided a total of \$4,185,265 to 22 projects to reduce or prevent nonpoint sources of pollution.
 - In SFY15 Ecology set aside 20 percent of the available CWSRF or (\$35.46M) for nonpoint source pollution control projects, however there were no loans requested and awarded.
- 6) Communicate with the Washington State Legislature regarding needs and priorities for funding.
 - Ecology sends its Draft IUP to the Legislature for consideration during budget development. The document calls out funding recommendations for hardship communities.
- 7) Require that funded projects are consistent with the goals of Sections 212, 319, and 320 of the CWA, including Washington’s Section 319 Nonpoint Plan (Washington’s Water Quality Management Plan to Control Nonpoint Source Pollution) and Washington’s Section 320 Estuary Plan (The 2012/2013 Action Agenda for Puget Sound).

- Ecology requires projects to be consistent with applicable approved water quality plans, including, but not limited to the following: Puget Sound Action Agenda and Washington’s Water Quality Management Plan to Control Nonpoint Sources of Pollution.
- As a pre-requisite for receiving funding, Ecology required all projects located in the Puget Sound Watershed (defined by Water Resource Inventory Areas 1 – 19) to be in compliance with the Puget Sound Partnership’s Puget Sound Action Agenda.

Goal 2

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

Objectives and progress

- 1) Involve stakeholders in major funding program development, including rules, guidance documents, policies, and the application process.
 - Ecology regularly requests comments and feedback from stakeholders and clients on potential changes or improvements to its funding guidelines and application process.
 - In SFY15, Ecology organized and attended meetings two meetings with the Financial Assistance Council (FAC) to review and discuss ongoing and emerging CWSRF program issues.
 - Ecology held two of its internal CWSRF Executive Oversight Committee. Among the issues discussed were: program status, fund management, 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.
- 2) Provide the opportunity for public comment on funding offers, rules, and major funding program changes.
 - During SFY15 Ecology developed a Draft IUP for SFY16 offers. Ecology made the Draft IUP available to the public. Ecology held a public meeting March 4, 2015, in Tacoma to discuss the Draft IUP and sought additional public comment during a 30-day public comment period.
- 3) Review the funding application and evaluation process annually with a focus on consistency and objectivity in rating and ranking.
 - Ecology trains staff assigned to evaluating annually, providing them with tools and resources to help them understand the scoring criteria, what they should be looking for and to improve consistency and accurate scores.
 - Ecology assesses its funding application and evaluation process each year and makes revisions as needed. One of the goals of the annual assessment effort is to ensure an increasingly consistent and objective rating and ranking process. Table 1 shows how Ecology allocates points for project proposals during the evaluation process.

Table 1: Application Point Allocation in SFY15

Question	Application Questions for SFY15	Points Available
1	Scope of Work	Up to 250
2	Proposed Budget	Up to 150
3	Water Quality and Public Health Improvements	Up to 250
4	Coordination with State and Federal Priorities	Up to 100
5	Project Team	Up to 50
6	Project Development, Local Support, and Past Performance	Up to 75
7	Readiness to Proceed	Up to 75
8	Hardship (for wastewater construction projects only)	50
Total Points		1,000

Goal 3

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

Objectives and progress

- 4) Review the financial hardship application form annually to ensure the proper evaluation of the effect of sewer fees on residential ratepayers as a percentage of median household income (MHI) for wastewater facilities construction projects.
 - Each year Ecology reviews and makes necessary updates to its final hardship evaluation process and criteria and its hardship application form to ensure a fair and clear approach to determining hardship status.
 - Financial hardship offers may include additional subsidy in the form of Centennial grants, forgivable principal CWSRF loans, and reduced interest rate CWSRF loans. Table 2 shows Ecology’s hardship continuum for CWSRF loans and forgivable principal. Table 9 shows the agreements signed in SFY15 involving financial hardship funding.

Table 2: SFY14 Hardship Interest Rates and Forgivable principal Continuum

Sewer Fee divided by Median Household Income (MHI):	<2%	≥2% but < 3%	≥3% but <5%	≥5%
Hardship Designation:	Non-hardship (low rates relative to MHI)	Moderate Hardship	Elevated Hardship	Severe Hardship (very high rates relative to MHI)
20-Year Loan Rates:	60% of municipal bond rate (2.3%)	40% of municipal bond rate (1.5%)	20% of municipal bond rate (0.8%)	0%
Forgivable Principal Eligibility	Not eligible	50%	75%	100%

- 5) After meeting other obligations, set aside one-third of the Centennial Program to provide grants for wastewater facilities construction projects in small communities where the effect

of the project on existing residential ratepayers will result in sewer fees that are two percent or more of the MHI.

- 6) After meeting other obligations, set aside five percent of the CWSRF to provide 50 percent forgivable principal loans to small communities with MHIs 80 percent or less of the state MHI for preconstruction activities such as planning and design of wastewater and stormwater facilities.
- 7) Provide priority rating consideration for small communities with MHIs less than the state MHI for preconstruction activities such as planning and design of wastewater and stormwater facilities.
- 8) Offer reduced interest rates to local governments who target onsite sewage system repair and replacement loans to financially distressed homeowners and small business owners.

Goal 4

Provide technical assistance to funding applicants and recipients.

- 9) Work closely with EPA and other federal agencies to ensure effective coordination associated with major federal environmental requirements under the CWSRF and the Section 319 Program. Also, work closely with appropriate federal and state agencies to ensure effective coordination associated with major state environmental requirements.
 - Ecology holds quarterly meetings of its internal Financial Managers and Facility Workgroups. The primary goal of the meetings is to further develop and maintain consistency among staff. Ecology also works closely with appropriate federal and state agencies to ensure effective coordination associated with major federal and state environmental prerequisites.
 - Ecology coordinates closely with other federal agencies and other state agencies to ensure it's 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.
- 10) Provide outreach at workshops and conferences to disseminate information related to major state and federal requirements, including the Davis-Bacon wage requirement, the State Environmental Review Process (SERP), the Growth Management Act (GMA) and other requirements.
 - In SFY15 Ecology organized multiple workshops for applicants and recipients of funding and attended and presented at multiple conferences. At each workshop and in each conference presentation Ecology provided information on meeting major state and federal requirements. Major state and federal requirements discussed at the workshops and conference presentations included, but were not limited to, the following: State Environmental Review Process (SERP), federal cross cutters, federal and state cultural resources, federal and state procurement, Minority Business Enterprise/Women Business Enterprise, Davis-Bacon, and Growth Management Act.

- 11) Conduct four annual funding applicant workshops.
 - Ecology held its applicant workshops for the FY16 cycle across the state on October 10, 11, 16 and 18, 2014.
- 12) Conduct two annual funding recipient workshops.
 - Ecology held its recipient workshops on July 22, 2014, in Moses Lake and July 31, 2014, in Tacoma for its SFY15 recipients to learn grant and loan management requirements.
- 13) Maintain the Water Quality Grants and Loans webpage at www.ecy.wa.gov/programs/wq/funding/funding.html
 - Ecology regularly updated the grant and loan funding website (www.ecy.wa.gov/programs/wq/funding/funding.html) to keep the public and stakeholders abreast of funding and training opportunities and to provide them with related forms and publications.
- 14) Provide individual training to funding recipients when requested.
 - Financial and Project Managers meet with recipients upon request. Project Managers attend preconstruction meetings to discuss expectations, procedures and requirements with the recipient, consultants and contractors.

Goal 5

Provide sound financial management of the funding programs and projects.

Objectives and progress

- 15) Evaluate the CWSRF annually to ensure the availability of funds in perpetuity as defined by Chapter 173-98 WAC, Use and Limitations of the Water Pollution Control Revolving Fund.
 - Ecology establishes interest rates for the CWSRF annually. Ecology bases the interest rates on a percent of the average interest rate for tax-exempt municipal bonds for the period 30-60 days prior to the beginning of a new funding cycle such as those published on http://www.bondbuyer.com/marketstatistics/search_bbi.html?details=true. The interest rates for standard CWSRF loans in SFY15 were:
 - 1.4 percent for a five-year loan (30 percent of tax-exempt municipal bonds).
 - 2.7 percent for a 20-year loan (60 percent of tax-exempt municipal bonds).
 - Ecology monitors the CWSRF to ensure that it will be available in perpetuity as required by the CWA. While the CWA does not define perpetuity, Ecology defined perpetuity in Chapter 173-98 WAC as, “*The point at which the water pollution control revolving fund is earning at least fifty percent of the market rate for tax-exempt municipal bonds on its loan portfolio.*” This rate is determined at the same time that the interest rates are set for each funding cycle.
 - As of August 2013, the tax-exempt municipal bond interest rate was 4.82 percent, and the weighted average of all CWSRF loans awarded in SFY 15 was 2.512 percent (52 percent of the market rate for tax-exempt municipal bonds).
- 16) Conduct financial capability assessments on CWSRF loan recipients.

- CWSRF agreements require a dedicated source of funds for repayment of the loan. Dedicated sources of revenue are a general obligation pledge or a revenue pledge. In the event of a CWSRF loan default, state law enables Ecology to withhold any state funds otherwise due to the community and direct that such funds be applied to the indebtedness and deposited into the CWSRF account.
- Ecology staff conducts a financial capability assessment on each CWSRF loan recipient before finalizing the loan agreement. Staff review information provided by applicants, including audit reports and financial statements, and produce an assessment that includes any recommended special conditions or reporting requirements to include in the agreement. The information obtained for the assessment helps inform Ecology staff for the subsequent funding cycle. The financial capability assessment process continues to improve based on experience evaluating financial indicators and risk factors.
- Ecology also includes language in all CWSRF loan agreements requiring each borrower to review its rate structure at least annually and update Ecology on the progress in meeting the goals and objectives included in use ordinances, resolutions, and rate studies.

17) Coordinate with Ecology's fiscal office on the overall financial management issues and prevent and resolve possible audit issues.

- Ecology's CWSRF staff regularly coordinate with Ecology's Fiscal Office staff.
- The CWSRF program is subject to annual state and federal audits (performance reviews). Ecology is responsive to auditor expectations and readily implements suggestions to improve the CWSRF program.
- In addition, Ecology monitors recipient audit reports and takes action when appropriate.
- Ecology Financial Managers and Project Managers continue to provide appropriate oversight of projects to ensure fiscal accountability.

18) Conduct internal workgroup meetings to identify problems, needs and emerging issues.

- Regional Project Managers meet every other month, and Financial Managers meet monthly to discuss problems, needs, and emerging issues to clarify procedures, ensure consistency and head off any potential problems.

19) Continue to integrate the major funding programs.

- Ecology is known for its success in integrating its major funding programs to create savings and efficiencies. For many years Ecology has had an integrated process for applying for funding under the CWSRF, Centennial, and Section 319. Beginning with SFY16 Funding Cycle Ecology also integrated the Stormwater Financial Assistance Program. Benefits of an integrated process include the following:
 - Cost savings.
 - A single application for the three funding programs.
 - One evaluation and selection process for all projects.
 - Offer lists published in a single volume.
 - Merged/leveraged limited state and federal funds awarded by Ecology.

- Simplified and streamlined funding cycle process.
 - One program guidance document.
- 20) Coordinate with advisory groups and councils, including the external Financial Assistance Council (FAC) and internal State CWSRF Executive Oversight Committee.
- Met with FAC in November 2014 and April 2015 to review and discuss ongoing and emerging CWSRF and combined financial assistance program issues.
 - Conducted two internal CWSRF Executive Oversight Committee meetings in October 2014 and June 2015 to review program status, fund management, and emerging issues.
- 21) Work closely with other funding agencies and programs to leverage funds including Community Development Block Grant (CDBG), Community Economic Revitalization Board (CERB), Department of Health (DOH), Rural Community Assistance Corporation (RCAC), Public Works Board (PWB), and US Department of Agriculture Rural Development (RD).
- Coordinated with the Community Development Block Grant (CDBG) on funding projects.
 - Coordinated with DOH on funding for Large On-Site Septic (LOSS) systems.
 - Coordinated with RD on funding for wastewater projects.
 - Supported the Small Communities Initiative (SCI) and actively participated in quarterly Steering Committee meetings. Meetings were attended by Ecology, DOH, PWB, RD, and Washington State Department of Commerce.
 - Assisted with planning and participated in the annual IACC conference. Ecology is an IACC member, and the IACC Chair and Vice Chair are Ecology staff members. Funding agency representatives work to coordinate the infrastructure funding programs to facilitate sharing information and problem solving. The IACC hosted its annual conference on September 30 to October 2, 2014, where several Ecology staff presented information on the financial assistance programs and participated in technical assistance (Tech Team) meetings to assist local communities in developing plans for specific infrastructure projects.
 - Participated in the Maximizing Resources in a Coordinated Manner Workgroup. The Maximizing Resources Workgroup is a subgroup of the IACC. It is composed of representatives from most infrastructure funding programs operating in the state. The workgroup meets quarterly to discuss projects needing funding and to develop ways to maximize funding and simplify processes.
 - Contracted with RCAC to provide special technical assistance for small communities.

Meeting Key Conditions of the Operating Agreement and Capitalization Grant

In 2008, Ecology and EPA amended the Operating Agreement for the CWSRF program. The agreement contains numerous conditions that Ecology must meet. Ecology is in compliance with all conditions of the Operating Agreement and Capitalization Grants. Several of the conditions are discussed elsewhere in this report; however, certain key conditions, including several that are required to be in the annual report, are discussed in this section.

Information on loan agreements signed and binding commitments

Ecology signed 37 CWSRF agreements totaling \$148,895,238 in SFY15. Table 3 lists the nine projects totaling \$32M that declined funding offers. Table 4 provides information on agreements signed or binding commitments made in SFY15.

Table 3: Declined Funding Offers

Application Number	Applicant	Amount
WQC-2015-MukiWD-00056	Mukilteo Water and Wastewater District	825,000
WQC-2015-SnCoPW-00183	Snohomish County - Public Works Department	298,500
WQC-2015-Spokane-00013	City of Spokane	3,225,000
WQC-2015-Spokane-00017	City of Spokane	3,325,000
WQC-2015-Spokane-00030	City of Spokane	4,950,000
WQC-2015-Spokane-00032	City of Spokane	13,585,000
WQC-2015-Spokane-00035	City of Spokane	610,000
WQC-2015-Spokane-00036	City of Spokane	5,525,000
WQC-2015-Concre-00170	Town of Concrete	100,000
Total	9 projects	\$32,443,500

Table 4: CWSRF Agreements/Binding Commitments in SFY15

Application Number	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Standard Loan	CWSRF Forgivable Principal	Loan rate (%)	Loan Term	Binding Commitment Date
WQC-2015-DeePar-00011	EL150052	Deer Park city of	Wastewater Storage Lagoons #1, #2 and #3 Construction Upgrade	I Secondary Treatment	4,139,932	4,139,932		2	20	12/23/2014
WQC-2015-Morton-00026	EL150031/EF150032	Morton city of	Morton Wastewater Treatment System Improvements	I Secondary Treatment	783,000		391,500	2.7	20	2/12/2015
WQC-2015-OakHar-00021	EL150065	Oak Harbor city of	City of Oak Harbor Wastewater Treatment Plant	I Secondary Treatment	8,260,000	8,260,000		2.7	20	4/24/2015
WQC-2015-OakHar-00110	EL150067	Oak Harbor city of	City of Oak Harbor Wastewater Outfall Project	I Secondary Treatment	3,200,000	3,200,000		2.7	20	4/24/2015
WQC-2015-Okanog-00041	EL150113/EF150114	Okanogan city of	Wastewater Treatment Facility Headworks Improvements	I Secondary Treatment	560,000		547,600	2.7	20	3/13/2015
WQC-2015-weRiPW-00061	EL150115	West Richland city of - Public Works Department	Biosolids Processing Facility	I Secondary Treatment	1,746,100		1,746,100	2.7	20	3/30/2015
WQC-2015-SacWSD-00073	EL150110	Sacheen Lake Water and Sewer District	Sacheen Lake Wastewater Collection and Treatment Project	I Secondary Treatment (50%) IV-A New Collector Sewers (50%)	7,209,502		7,209,502	0	20	3/4/2015
WQC-2015-EphrPW-00095	EL150019/EF150027	Ephrata city of - Public Works Department	City of Ephrata General Sewer Plan/Wastewater Facility Plan	I Secondary Treatment (planning)	120,000		60,000	1.4	5	12/1/2014
WQC-2015-PoGalT-00062	EL150025	Port Gamble S'Klallam Indian Tribe	Port Gamble S'Klallam Tribe Membrane BioReactor WWTP (MBR) Design	II Advanced Treatment	875,000		875,000	2.7	20	12/5/2014

Application Number	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Standard Loan	CWSRF Forgivable Principal	Loan rate (%)	Loan Term	Binding Commitment Date
WQC-2015-PoGalT-00065	EL150043	Port Gamble S'Klallam Indian Tribe	Sewer Lift Station and Force Main from RGF to MBR WWTP Site: Design & Const	II Advanced Treatment	1,862,000	1,862,000		2.7	20	12/5/2014
WQC-2015-SequPW-00131	EL150063	Sequim city of - Public Works Department	City of Sequim Water Reuse Facility Aerobic Digester Aeration Improvements	II Advanced Treatment	720,000	720,000		1.4	5	1/30/5015
WQC-2015-Spokan-00037	EL150061	Spokane city of	RPWRF Solids Recycle Pump Station	II Advanced Treatment	3,070,000	3,070,000		2.7	20	4/1/2015
WQC-2015-Spokan-00038	EL150076	Spokane city of	Riverside Park Water Reclamation Facility (RPWRF) Digester	II Advanced Treatment	15,203,822	15,203,822		2.7	20	4/1/2015
WQC-2015-ShelPW-00077	EL150056	Shelton city of - Public Works Department	City of Shelton Basin 3 Sewer Rehabilitation Project	II-A Infiltration/Inflow (65%), II-B Sewer System Rehabilitation (25%), IV-A New Collector Sewers (10%)	4,373,198	4,373,198		2.3	20	5/19/2015
WQC-2015-SamiWD-00076	EL150096	Samish Water District	Samish Water District - Lake Samish Pump Station No. 4 Rebuild	II-B Sewer System Rehabilitation	835,593	835,593		2.7	20	3/25/2015
WQC-2015-Toppen-00146	EL150107	Toppenish city of - Public Works Department	Engineering Evaluation/General Sewer Plan	III B-Sewer System Rehabilitation	150,000	75,000	75,000	2.7	20	3/4/2015
WQC-2015-ChehPW-00007	EL150003/EF150004	Chehalis city of - Public Works Department	Chehalis Basin 1022 I&I Rehabilitation Project	III-A Infiltration/Inflow	1,108,150	1,033,150	75,000	2.4	20	11/17/2014

Application Number	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Standard Loan	CWSRF Forgivable Principal	Loan rate (%)	Loan Term	Binding Commitment Date
WQC-2015-Morton-00053	EL150028/EF150030	Morton city of	Morton Collection System Improvements	III-A Infiltration/Inflow	767,938	739,938	28,000	2.7	20	1/7/2015
WQC-2015-SoaLak-00020	EL150033	Soap Lake city of	Sewer Capital Improvements Plan	III-A Infiltration/Inflow	51,000	25,500	25,500	1.4	5	1/16/2015
WQC-2015-Spragu-00127	EL150089	Sprague city of	General Sewer Plan	III-A Infiltration/Inflow	32,890	16,445	16,445	1.4	5	3/13/2015
WQC-2015-Ilwaco-00052	EL150016/EF150017	Ilwaco city of	Sahalee Subdivision Sewer System Improvement	III-A Infiltration/Inflow (20%) and IIIB Sewer System Rehabilitation (80%)	1,658,437	1,521,332	137,105	2.4	20	3/4/2015
WQC-2015-aberPW-00015	EL150054/EF150055	Aberdeen city of - Public Works	City of Aberdeen WWTP outfall replacement	III-B Sewer System Rehabilitation	1,919,000	1,835,000	84,000	2.7	20	1/29/2015
WQC-2015-KCoNRP-00001	EL150072	King County - Natural Resources and Parks Department	Fremont Siphon Replacement (Construction Phase)	III-B Sewer System Rehabilitation	29,459,059	29,459,059		2.7	20	5/7/2015
WQC-2015-LkStSD-00148	EL150112	Lake Stevens Sewer District	Decommission Former LSSD WWTP Site: Phase 2A, Biosolids Removal	III-B Sewer System Rehabilitation	4,025,000	4,025,000		2.7	20	3/13/2015
WQC-2015-MetFal-00112	EL150086/EF150087	Metline Falls town of	Sullivan Creek Protection Project: Metline Falls Wastewater Upgrades	III-B Sewer System Rehabilitation	246,920	235,120	11,800	2.7	20	4/22/2015
WQC-2015-GHCoPS-00058	EL150100/EF150101	Grays Harbor County - Public	Illahee/Oyehut Sewer Collection System	IV-A New Collector Sewers	738,279	633,279	105,000	2.7	20	6/22/2015

Application Number	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Standard Loan	CWSRF Forgivable Principal	Loan rate (%)	Loan Term	Binding Commitment Date
		Services Department								
WQC-2015-VeraWP-00113	EL150084	Vera Water and Power	Sun Acres LOSS Decommission/Spokane County System Connection	IV-A New Collector Sewers	186,340	186,340		0.9	20	2/25/2015
WQC-2015-KCoNRP-00002	EL150092	King County - Natural Resources and Parks Department	Barton CSO Beach Project (Construction Phase)	V CSO Correction	8,559,416	7,793,299	766,117	2.7	20	5/7/2015
WQC-2015-KCoNRP-00004	EL150091	King County - Natural Resources and Parks Department	North Beach CSO (Construction Phase)	V CSO Correction	3,031,594	3,031,594		2.7	20	5/7/2015
WQC-2015-KCoNRP-00005	EL150080	King County - Natural Resources and Parks Department	South Magnolia CSO (Construction Phase)	V CSO Correction	26,449,931	26,449,931		2.7	20	5/7/2015
WQC-2015-PortAngPW-00175	EL150038	Port Angeles city of - Public Works	Port Angeles CSO Phase 2	V CSO Correction	12,000,000	12,000,000		2.7	20	1/7/2015
WQC-2015-Spokane-00025	EL150066	Spokane city of	Combined Sewer Overflow (CSO) Basin 33-2 Control Facility	V CSO Correction	4,270,800	4,270,800		2.7	20	4/1/2015
WQC-2015-YelmPW-00040	EL150105	Yelm city of - Public Works Department	City of Yelm Stormwater Comprehensive Plan	VI Storm sewers	25,000	25,000		2.7	20	6/25/2015
WQC-2015-Lind-00122	EL150024	Lind town of	Protecting Lind Coulee with Innovative and Neighborly	VII-D Urban, excluding decentralized Systems	7,337	7,337		2.7	20	1/30/2015

Application Number	Agreement Number	Recipient Name	Project Title	Needs Category	Total Assistance	CWSRF Standard Loan	CWSRF Forgivable Principal	Loan rate (%)	Loan Term	Binding Commitment Date
			Stormwater Solutions							
WQC-2015-KitPHD-00157	EL150037	Kitsap Public Health District	Regional Clean Water Revolving Loan Program	VII-L Individual/Decentralized Systems	1,000,000	1,000,000		1.4	5	6/30/2015
WQC-2015-SkCoPD-00130	EL150041	Skagit County - Planning and Development Services	Skagit County Non-point Repair Fund and Edison LOSS Green Upgrades	VII-L Individual/Decentralized Systems	250,000	250,000		2.7	20	1/26/2015
Total Binding Commitments					148,895,238	147,107,371	1,787,867			

Binding commitments

Ecology is required to make binding commitments for 120 percent of the federal grant payment within one year following receipt. Table 5 shows that Ecology easily met this requirement for SFY15.

Table 5: Binding Commitments with Respect to Federal Grant Payments in SFY15

Capitalization Grant Received During SFY15	\$24,383,000
Binding Commitments Required Within One Year of Receipt	\$29,259,600
Binding Commitments at the End of SFY15	\$148,895,238
Percent of Capitalization Grant under Binding Commitment at the End of SFY15	509%

Timely and expeditious use of funds

Ecology is required to make use of federal funds received and the state match in a “timely and expeditious” manner. EPA's Memorandum #SRF 99-05 requires the CWSRF program to execute binding commitments at least equal to the amount of funds available in the program, within one year of that fund availability. The memo explains what is meant by timely and expeditious. Table 6 shows the cumulative funds received, cumulative principal and interest collected, and the cumulative administration expenditures through SFY13 in addition to the cumulative loan obligations through SFY14. The table shows that Ecology has committed more than 105.20 percent of the cumulative funds available through SFY14.

Table 6: Timely and Expeditious Use of Federal Funds

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY14)	\$585,249,560	\$68,151,900	\$653,401,460
State Match (cumulative through SFY14)	117,049,912	-	117,049,912
Principal and Interest Collected (cumulative through SFY14)		-	647,982,867
State Treasurer's Office Interest (cumulative through SFY14/cash basis)		-	35,816,557*
Administration 4% (cumulative through SFY14)	(23,358,103)	(2,726,076)	(26,084,179)
Total Funds (cumulative through SFY14)	678,941,369	65,425,824	1,428,166,617
Loan Obligations (cumulative through SFY15)	\$1,490,506,310	\$65,449,649	\$1,555,955,959
Loans as % of Funds Available			108.94%

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

State match

The 2013-15 Biennial budget directly appropriated \$15.5 million in spending authority for CWSRF State match to come from the State Taxable Building Construction Account. In previous years legislation authorized the match as a Treasurer's cash transfer into account 727. Ecology requested a technical fix that was implemented in the Supplemental legislative budget. In SFY15, a Supplemental Budget Bill was passed by the State Legislature that removed the spending appropriation and approved the transfer of cash from the State Taxable Building Construction Account to the CWSRF account. On June 30, 2015, the State Treasurer deposited \$15.5 million into the CWSRF account. These funds are sufficient to meet the match requirement for SFY14 and SFY15.

Green Project Reserve

The FFY14 grant from EPA required Ecology to offer a minimum of 10 percent of the grant to Green Project Reserve (GPR) projects or GPR elements of projects. The FFY14 grant totaled \$24,383,000 which set the GPR requirement at \$2,438,300.

In SFY15 Ecology made specific offers of \$7.2 M to the five GPR-eligible projects. During agreement negotiations, GPR amounts were finalized based on the project scope of work resulting in a slightly lower total for GPR. Table 7 shows the five projects that received \$6,933,230 in GPR funds for SFY15. This equals 28 percent of the cap grant, meeting the 10 percent requirement.

Table 7: Green Project Reserve (GPR) Offers in SFY15

Agreement Number	Loan Number	Applicant Name	Project Population	Project Title	GPR Designation	Standard Loan	Forgivable Principal Loan
WQC-2015-KCoNRP-00002	EL150092/ EF150093	King County - Natural Resources and Parks Department	13,070	Barton CSO Beach Project (Construction Phase)	Green Infrastructure 1.2-6 Comprehensive retrofit programs designed to keep wet weather discharges out of all types of sewer systems using green infrastructure technologies and approaches.	\$2,451,013	\$766,117
WQC-2015-KitPHD-00157	EL150037	Kitsap Public Health District	417,540	Regional Clean Water Revolving Loan Program	Environmental Innovative 4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing OSS.	\$1,000,000	

Agreement Number	Loan Number	Applicant Name	Project Population	Project Title	GPR Designation	Standard Loan	Forgivable Principal Loan
WQC-2015- SequPW- 00131	EL150063	Sequim city of - Public Works Department	6,607	City of Sequim Water Reuse Facility Aerobic Digester Aeration Improvements	Energy Efficiency 3.3-2 Projects that achieve 20% reduction in energy consumption. This project documents at least 40% reduction in energy consumption.	\$720,000	
WQC-2015- SkCoPD- 00130	EL150041	Skagit County - Planning and Development Services	118,600	Skagit County Non-point Repair Fund and Edison LOSS Green Upgrades	Environmental Innovative 4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing onsite wastewater systems.	\$250,000	
WQC-2015- weRiPW- 00061	EL150115	West Richland city of - Public Works Department	13,000	Biosolids Processing Facility	Energy Efficiency 3.2-2 Projects that achieve a 20% reduction in energy consumption. This project documents 42% savings.	\$1,746,100	
				Total	\$6,933,230	\$6,617,113	\$766,117

Additional subsidization and sustainability of funded projects

The FFY14 grant from EPA specifies that Ecology must use a minimum of \$1,326,866 and up to a maximum of \$1,990,299 of the grant to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants. Ecology meets the requirement by providing forgivable principal loans to wastewater treatment preconstruction projects that demonstrate financial hardship and for GPR-eligible projects.

In SFY15 Ecology made offers of forgivable principal loans to 14 applicants totaling \$1,858,867. One recipient declined the offer resulting in a total of \$1,787,867 awarded to 13 recipients. Table 8 summarizes the recipients that received forgivable principal loans for their projects.

Table 8: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY15

Agreement Number	Loan Number	Recipient	Project Title	Preconstruction Forgivable Principal	GPR Forgivable Principal	ASR Sustainability Criterion Met	Could the recipient afforded the project without additional subsidization?
WQC-2015-Morton-00053	EF150030	Morton, City of	Morton Collection System Improvements	\$28,000		1	No
WQC-2015-MetFal-00112	EF150087	Metline Falls, Town of	Sullivan Creek Protection Project: Metline Falls Wastewater Upgrades	\$11,800		1	No
WQC-2015-ChehPW-00007	EF150004	Chehalis, City of - Public Works Department	Chehalis Basin 1022 I&I Rehabilitation Project	\$75,000		1	No
WQC-2015-KCoNRP-00002	EF150093	King County - Natural Resources and Parks Department	Barton CSO Beach Project (Construction Phase)		\$766,117	3	Yes

WQC-2015-Morton-00026	EF150032	Morton, City of	Morton Wastewater Treatment System Improvements	\$391,500		2	No
WQC-2015-Okanog-00041	EL150113	Okanogan city of	Wastewater Treatment Facility Headworks Improvements	\$12,400		1	No
WQC-2015-GHCoPS-00058	EL150100	Grays Harbor County - Public Services Department	Illahee/Oyehut Sewer Collection System	\$105,000		1	No
WQC-2015-Ilwaco-00052	EF150017	Ilwaco, City of	Sahalee Subdivision Sewer System Improvement	\$137,105		1	No
WQC-2015-Toppen-00146	EF150108	Toppenish, City of - Public Works Department	Engineering Evaluation/General Sewer Plan	\$75,000		2	No
WQC-2015-aberPW-00015	EF150055	Aberdeen, City of - Public Works	City of Aberdeen WWTP outfall replacement	\$84,000		1	No
WQC-2015-SoaLak-00020	EF150034	Soap Lake, City of	Sewer Capital Improvements Plan	\$25,500		2	No
WQC-2015-Spragu-00127	EF150090	Sprague, City of	General Sewer Plan	\$16,445		2	No
WQC-2015-EphrPW-00095	EF150027	Ephrata, City of - Public Works Department	City of Ephrata General Sewer Plan/Wastewater Facility Plan	\$60,000		2	No
Totals			\$1,787,867	\$1,021,750	\$766,117		

Assistance to hardship communities

Ecology is committed to providing financial assistance to hardship communities. Table 9 outlines the assistance provided in the form of reduced interest rates, forgivable principal loans, and Centennial grants to make these projects more affordable for eight communities.

Table 9: Hardship Assistance Provided in SFY15

Agreement Number	Loan Number	Applicant	Project Title	Hardship Level	Revolving Fund Standard Loan	Weighted Interest Rate	Revolving Fund Forgivable Principal Loan	Centennial Program Grant
WQC-2015-DeePar-00011	EL150052	Deer Park, City of	Wastewater Storage Lagoons #1, #2 and #3 Construction Upgrade	Elevated	\$4,139,932	2.0%		\$5,000,000
WQC-2015-Morton-00053	EL150028/EF150030	Morton, City of	Morton Collection System Improvements	Moderate	\$739,938	2.7%	\$28,000	\$394,962
WQC-2015-VeraWP-00113	EL150084	Vera Water and Power	Sun Acres LOSS Decommission/Spokane County System Connection	Elevated	\$186,340	0.9%		\$559,019
WQC-2015-SacWSD-00073	EL150110	Sacheen Lake Water and Sewer District	Sacheen Lake Wastewater Collection and Treatment Project	Severe	\$7,209,502	0.0%		\$5,000,000
WQC-2015-ShelPW-00077	EL150056	Shelton, City of - Public Works Department	City of Shelton Basin 3 Sewer Rehabilitation Project	Moderate	\$4,373,198	2.3%		\$1,875,298
WQC-2015-ChehPW-00007	EL150003/EF150004	Chehalis, City of - Public Works Department	Chehalis Basin 1022 I&I Rehabilitation Project	Moderate	\$1,033,150	2.4%	\$75,000	\$301,850
WQC-2015-GHCoPS-00058	EF150101/EL150100	Grays Harbor County - Public Services Department	Illahee/Oyehut Sewer Collection System	Severe	\$658,371	2.7%	\$126,000	\$2,199,629
WQC-2015-Ilwaco-00052	EF150017/EL150016	Ilwaco, City of	Sahalee Subdivision Sewer System Improvement	Moderate	\$1,521,332	2.4%	\$137,105	\$540,843
					\$19,861,763		\$366,105	\$15,871,601

State Environmental Review Process (SERP) and federal cross cutters

Ecology is required to ensure that SERP is met for all facility design or construction projects receiving funding through the CWSRF. In addition, Ecology is required to ensure that wastewater treatment facility construction projects meet the federal cross cutter requirements.

In SFY14, a new staff person took over the SERP Coordinator position and is working closely with EPA to address the remaining questions and comments and finalize the Environmental Review cutters guidance document.

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

Clean Water Benefits Report

Ecology is required to provide either an environmental benefits “one-pager” for every loan signed during the fiscal year or a summary report. Table 4 is a summary of each loan executed. Table 10 is a summary report derived from the Clean Water Benefits Reporting (CBR) database. This output report summarizes the clean water benefits for the loans executed in SFY15.

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

	Loans		Projects			Borrowers		
	Assistance Dollars (millions)	Loan Count	Assistance Dollars (millions)	Subsidy Dollars (millions)	Project Count	Facility Population (millions)	Facility Flow (MGD)	Borrower Count
Total Records	149.3	36	148.8		38	2.0	1,033	28
Records with Benefits Data	148.9	36	148.8	46.4	36	2.0	1,033	28
Impacting Human Health	110.2	27	110.2	34.9	27	2.0	1,032	23
	99%	92%	99%		92%	10,236*		63%
With Impaired Waterbody			76.9	21.0	15	1.8	948	9
			52%		42%	23,551*		32%
With Water Body Meeting Standards			18.5	5.9	8			
To Improve Water Quality			108.3	34.4	25			
To Maintain Water Quality			40.4	11.9	8			
To Achieve Compliance			64.1	20.7	13			
To Maintain Compliance			83.7	25.5	19			

CWSRF program changes and development

CWSRF Administrative Charge

On May 1, 2013, the Governor signed SHB 1141 which amended RCW 90.50A.090 establishing the water pollution control revolving fund administrative account. On December 21, 2013, Ecology adopted an amendment to Chapter 173-98 Washington Administrative Code (WAC), *Uses and Limitations of the Water Pollution Control Revolving Fund* allowing for a one percent charge on loans to be used for administrative costs related to CWSRF. Ecology began applying the charge to all loans entering repayment on or after that date. As of June 30, 2015, the total administrative charge deposited into the Administrative Account (564) totaled \$1,189,363. By 2017, Ecology will evaluate the charge and determine what is the appropriate rate needed to meet our administrative costs without accumulating an excess balance. If the account gets too large, Ecology can transfer funds into Account (727) to fund projects.

Drawing funds from the Capitalization Grant

Ecology implemented a new method for drawing funds from the capitalization grant in SFY12. Previously, Ecology drew from both the capitalization grant and the state principal and interest revenue when assigning codes to new loans. This created a lag in spending down of the federal capitalization grants and resulted in multiple years of capitalization grant awards being open and unspent. Ecology worked with EPA to come up with a solution, and starting in SFY12, Ecology began coding most agreements with federal capitalization dollars. Ecology was making some headway in drawing down open grants.

The headway slowed this biennium because of a technical error in how the State match was placed in the budget. The 2013-15 Biennial budget directly appropriated \$15.5 million for State match from the Taxable State Building Construction Account. In previous years the match authorized as a Treasurer's transfer into account 727. The direct appropriation that occurred in the 2013-15 biennium created a challenge as to how to get the state match deposited into fund 727 as required by the CWA. Ecology worked with the state Office of Financial Management and EPA to develop accounting procedures to spend down the state match. Ecology requested a technical fix that was implemented in the SFY16 Supplemental legislative budget. As of June 30, 2015, Ecology has FFY13 and FFY14 capitalization grants open.

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

During SFY15, Ecology accepted applications for the SFY16 cycle using our web based grant and loan management system, Ecology Administration of Grants and Loans (EAGL). Ecology staff screened and evaluated those applications within the EAGL system. For SFY15 funded projects, after negotiations, agreements became active in EAGL. Recipients submit Payment Requests/Progress Reports (PRPRs) along with backup documentation via EAGL. Ecology Financial and Project Managers review and approve payments within the system. Once Ecology staff approves a PRPR, EAGL notifies Ecology's Fiscal Office, staff activates payment, and the recipient gets paid. No more paper! There have been some bugs along the way but we have worked them out and things are working smoothly.

Fund Management and Health of the Account

The CWSRF account balance has grown over the years to approximately \$218M at the end of SFY15. Quarterly revenue into the account from repayments and federal grants has outpaced quarterly expenditures. This situation underutilizes funds that could be awarded as loans. Historically, Ecology has based CWSRF loan offers on the available cash in the account. In consultation with EPA and using other state examples, Ecology has developed an CWSRF cash flow model that projects the expected availability of funds from principal and interest income compared to loan disbursements on projects over time. This approach, referred to as loan acceleration, allows Ecology to award funds sooner by projecting future loan repayments, while maintaining a sufficient fund balance.

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

Ecology began accelerating in SFY14 by including less than one year of anticipated principal and interest repayments in the funds available. In SFY15, Ecology included two and a half years of anticipated principal and interest repayments in the funds available. Ecology's cash flow model projects that the account balance will drop to \$40M by 2018. Ecology's goal is to get the cash balance down to approximately \$40M and maintain that balance over time. Ecology is updating its cash flow model quarterly and will use it to make future decisions related to appropriation requests and funds available each funding cycle.

Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) introduces the annual financial statements of the State of Washington Department of Ecology, Clean Water State Revolving Fund Loan Program (CWSRF) for the years ended June 30, 2015 and 2014, and 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) 2014 grant award was \$24,383,000. Ecology matches 20 percent of the grant award with state funds, or \$4,876,600. The funding levels for the CWSRF program for each fiscal year are based on federal appropriations, state legislative appropriations, repayments from past loans, interest on investments and de-obligated funds. The funding made available for projects in the state fiscal year (SFY) 2015 was \$180M as published in Ecology's June 30, 2015 Intended Use Plan. CWSRF loan interest rates are between zero and 2.7 percent.

Net position of the CWSRF

The CWSRF program has no capital assets and no related debt. The total amount of reported net position as of June 30, 2015, is \$888,225,779.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF. As discussed in Note 1, Reporting Entity, the basic financial statements of the CWSRF are intended to present the financial position, changes in financial position, and cash flows of only that portion of the financial reporting entity of the Department of Ecology that is attributable to the transactions of the CWSRF. They do not purport to present the financial position of the Department of Ecology or the State of Washington (State) as of June 30, 2015 and 2014 and the change in their financial positions and their cash flows for the years then ended.

DRAFT UNAUDITED

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

Overview of Financial Statements

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

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

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

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

Table 1**Net Position**

	June 30,		
	2015	2014	2013
ASSETS			
Cash and cash equivalents	217,837,096	\$ 166,939,406	\$ 136,096,750
Loans receivable	661,520,717	680,892,634	666,856,267
All other assets	9,982,601	8,374,038	8,015,656
Total assets	889,340,414	856,206,078	810,968,673
LIABILITIES			
Current liabilities	1,114,635	7,017,081	8,490,174
Total liabilities	1,114,635	7,017,081	8,490,174
NET POSITION			
Unrestricted	888,225,779	849,188,997	802,478,499
Total net position	888,225,779	\$849,188,997	\$802,478,499

Changes in net position

During SFY15 the CWSRF cash increased by \$50,897,690, as can be seen on the Statement of Net Position. The increase in cash is a result of an emphasis to use funds from the EPA before using State revolving funds. Interest credited to the CWSRF account from the State Treasurer's Office totaled \$791,376. Cash received from EPA capitalization grant funds totaled \$18,191,115, and matching funds provided by the state of Washington totaled \$15,500,000. While cash increased from SFY14 to SFY15, Ecology would like to see cash continue to decrease as it awards more loans using cash flow acceleration for priority water quality projects throughout the state in 2015. The change in loans receivable is due to disbursing new loans in an amount greater than receipts on existing loans. The amount of loans disbursed during the year was \$28,296,843. Principal and interest payments received from borrowers during the year was \$41,272,038 and the principal forgiveness applied during the year was \$6,396,723. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$8,649,587.

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During fiscal year 2014, the CWSRF cash increased by \$30,842,656. Total loan repayments, including principal and interest received from borrowers was \$52,139,591. Loans disbursed during the year were \$56,433,314. Interest credited to the CWSRF account from the State Treasurer's Office totaled \$215,382. Administrative expenses paid to employees, vendors, and for indirect costs totaled \$1,664,826. Cash received from EPA capitalization grant funds totaled \$30,635,754, and matching funds provided by the state of Washington totaled \$5,950,069.

Table 2

Changes in Net Position

	Year Ended June 30,		
	2015	2014	2013
Revenues			
Program revenues:			
Loan interest income	12,226,612	\$ 12,506,051	\$ 11,421,732
General revenues:			
Investment income	791,376	215,382	323,281
Total revenues	13,017,988	12,721,433	11,745,013
Expenses			
Program expenses:			
Administrative expenses	1,260,708	1,308,812	1,205,023
Principal forgiveness	6,396,723	2,600,300	5,370,992
Total expenses	7,657,430.50	3,909,112	6,576,015
Increase in net position before contributions	5,360,557	8,812,321	5,168,998
Capital contributions:			
EPA capitalization grant	18,176,224	31,948,108	49,824,420
State and other contributions	15,500,000	5,950,069	7,750,000
Subtotal capital contributions	33,676,224	37,898,177	57,574,420
Change in net position	39,036,781	46,710,498	62,743,418
Net position - beginning of year	849,188,997	802,478,499	739,735,081
Net position - end of year	\$ 888,225,778	\$ 849,188,997	\$ 802,478,499

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Income for fiscal year 2015

Net operating income of the CWSRF for SFY15 was \$10,965,904. Operating income or loss includes those amounts earned by the ordinary activities of the program, less the related expenses. Ordinary activities of the program include interest earned on loans and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment. Net operating income for SFY14 was \$11,197,239.

Net operating income increases the amount of net position in the program. Other increases to net position include amounts actually received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In 2015 the amount of federal funds earned was \$18,176,224 and the amount of state matching funds received during the year was \$15,500,000.

Income for fiscal year 2014

Net operating income of the CWSRF for SFY14 was \$11,197,239. Operating income or loss includes those amounts earned by the ordinary activities of the program, less the related expenses. Ordinary activities of the program include interest earned on loans and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment. Net operating income for SFY13 was \$10,216,709.

Net operating income increases the amount of net position in the program. Other increases to net position include amounts actually received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In 2014 the amount of federal funds earned was \$31,948,108 and the amount of state matching funds received during the year was \$5,950,069.

State matching funds

For SFY's 2014 and 2015, State matching funds came from the State Taxable Building Construction Account. Revenue from that account is derived from a combination of bond proceeds and other miscellaneous revenue.

Recovery Act CWSRF

During SFY 2009, Ecology was appropriated funds under the American Recovery and Reinvestment Act of 2009 (Recovery Act). Enacted on February 17, 2009, due to a national economic crisis, the Recovery Act was intended to stabilize the economy through job creation, provide investments needed to increase economic efficiency by spurring technological advances in science and health, and invest in infrastructure to provide long-term economic benefits.

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EPA awarded a capitalization grant from the Recovery Act for FFY 2009, totaling \$68,151,900. Of this amount, \$65,425,825 was available for projects and \$2,726,075 was available to administer the program. Recovery Act projects are complete and as of July 31, 2014, 100 percent of the project funds have been disbursed. The EPA Grant Number 2W-96091001 (ARRA) was closed on August 25, 2014.

Economic Conditions and Outlook

Department of Ecology continues to improve Washington State's CWSRF program through strategic planning and funding program updates to address changing economic conditions. Changes and updates of policies, procedures and guidelines are addressed annually to ensure financial health and sustainability of the fund. Program statute and rules are also reviewed and updated periodically to address emerging water quality financial assistance needs. Fiscal year 2015 represents an improvement in funding demand compared to several previous years of lower demand for CWSRF loan funding, indicating a general improvement in the local government economic outlook, post economic downturn.

Ecology continues to work and coordinate closely with other state and federal infrastructure funders in Washington State in an effort to maximize the use of available federal and state funding. These coordination efforts result in funding program efficiencies, collaboration to meet local government financing needs, and improved marketing of funding programs. The Infrastructure Assistance Coordinating Council (IACC) is a unique Washington State organization that facilitates this ongoing funding collaboration. More information on the IACC can be found at: <http://www.infracollaboration.wa.gov/>

For fiscal year 2015 (federal fiscal year 2014) the federal capitalization grant was approximately \$24 million, slightly more than the previous year. The outlook for ongoing federal funding generally indicates 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, albeit at a lower level. Ecology has implemented the use of a cash flow model to project and predict available fund resources each funding year, with a 20 year projected outlook. This model has enabled Ecology to award additional loan funding through available cash resources and accounts for ongoing repayments and program income and disbursements. Ecology accounts for possible reductions in the capitalization grant through the model.

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

Conclusion

This MD&A is intended to provide a summary of the financial condition of the CWSRF loan program and should be read in conjunction with the remainder of this report. The financial

statements and footnotes contained in this annual report provide a detailed analysis of the program's financial position and results of operations.

Requests for Information

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

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The accompanying notes are an integral part of the financial statements

1. Summary of Significant Accounting Policies

Reporting Entity

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

Operation of the CWSRF and the Account

The CWSRF provides loans at reduced interest rates to finance qualified projects for the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and the development and implementation of estuary conservation and management plans. Loans made by the Account must be repaid within 20 years, and all repayments, including interest and principal, must be credited to the Account.

States are required to provide an additional 20 percent of the Federal capitalization grant amount as matching funds in order to receive the grant from EPA. The State has been awarded \$677,784,460 in capitalization grants from 1989 through June 30, 2015. The State match share for that awarded amount is \$121,926,512. State match was transferred to the Account from the Public Works Assistance Account for the year ended June 30, 2013. For the year ended June 30, 2014, the match was held in the State Taxable Building Construction Account (Account No. 355). The match portion included in Account No. 355 has been included as part of these financial statements in order to show the complete activity related to this program. In FY15, the match was removed from account 355 and a cash transfer was made into account 727 to cover matching commitments for FY14 and FY15.

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

1. Summary of Significant Accounting Policies (Continued)

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

Basis of Accounting

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

The financial statements for the Account are presented as an enterprise fund and are reported using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded as earned and expenses are recorded when the liability is incurred. The enterprise fund is used since the Account's powers are related to those operated in a manner similar to a for profit business where an increase in net position is an appropriate determination of accountability. The Account is included in the state of Washington's basic financial statements as a special revenue account, which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the basic financial statements.

Implementation of New Standards

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

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Loans Receivable

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

Forgivable Principal

During the June 30, 2012 fiscal year, the federal Appropriations Act of 2011 was passed by Congress. This Act authorized some of the same requirements that were introduced in the American Recovery and Reinvestment Act of 2010. One of these requirements is forgivable principal hardship loans. The maximum forgivable principal loan amount for each hardship recipient is \$5 million. Ecology awarded \$1,787,867 and \$1,127,903 in forgivable principal loans during the years ended June 30, 2015 and 2014, respectively, which is recognized upon loan closure when final amounts of the project are determined.

1. Summary of Significant Accounting Policies (Continued)

Operating Revenues and Expenses

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

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

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

Use of Estimates in Preparing Financial Statements

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

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, 2014, total Treasurer’s invested balance of the Treasury/Trust Fund Portfolio was \$5.33 billion. Details of the investments can be obtained from the State Treasurer’s Office.

All cash and investments are stated at cost, which approximates fair market value.

	<u>Carrying Amount</u>	<u>Market Value</u>
Treasury/Trust Portfolio June 30, 2015	<u>\$218,050,822</u>	<u>\$218,050,822</u>
Treasury/Trust Portfolio June 30, 2014	<u>\$166,939,406</u>	<u>\$166,939,406</u>

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

	<u>2015</u>	<u>2014</u>
CWSRF Securities on loan:		
Fair Value	<u>\$ 5,970,556</u>	<u>\$ 4,579,402</u>
Cash Collateral held by CWSRF:		
Fair Value	<u>\$ 6,116,710</u>	<u>\$ 6,116,710</u>
Reported Value	<u>\$ 4,690,715</u>	<u>\$ 6,116,710</u>
OST Securities on loan:		
Fair Value	<u>\$ 144,789,671</u>	<u>\$ 149,088,785</u>
Cash Collateral held by OST:		
Fair Value	<u>\$ 148,334,000</u>	<u>\$ 152,712,500</u>
Reported Value	<u>\$ 148,334,000</u>	<u>\$ 152,712,500</u>

2. Deposits and Investments (Continued)

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

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

As of June 30, 2015, investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$145,078,266 book and \$144,789,671 fair value.

On June 30, 2015 and 2014, 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 2015, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

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

3. Loans Receivable

The Account makes loans to qualified entities for projects that meet the eligibility requirements of The Act. Loans are financed by capitalization grants, state matches, and revolving funds. Interest rates for SFY 2015 were established at 1.4 percent for up to a five year-term and 2.4 percent for loans with more than a five-year term, but no more than 20 years. The Account also makes hardship loans with a variable interest rate, as low as zero, to communities that can demonstrate financial hardship on residential ratepayers in the form of sewer user fees. Loan repayments are required to start one year after initiation of operations or project completion, whichever occurs first.

As of June 30, 2015 and 2014, the Account had total binding commitments of \$148,895,238 and \$115,590,652, respectively, which meets the program requirement of committing 120% of the federal grant payment within one year following receipt. Federal funds awarded to date including ARRA Federal funds is \$677,784,460 and \$653,401,460 as of June 30, 2015 and 2014, respectively. Loan obligations as of June 30, 2015, which include state matching requirements and principal and interest collected from repayment, were \$1,556,244. Loan obligations as of June 30, 2014 which include state matching requirements and principal and interest collected from repayment were \$1,407,347,855.

Loans by Category

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

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Receivable Balances</u>
Completed projects	\$ 969,029,768	\$ -	\$ 625,187,193
Projects in progress	321,778,361	285,444,739	<u>36,333,622</u>
Total			661,520,717
Payment requests in progress (Received as of June 30, 2014, but not yet paid)			-
Less amount due in one year			<u>(47,689,616)</u>
Loans receivable, June 30, 2014 (Net of current maturities)			<u><u>\$ 613,831,100</u></u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SFY 15 (7/1/14 – 6/30/15)
EXHIBIT 1: Notes to the Financial Statements for FY15**

3. Loans Receivable (Continued)

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

	<u>Loan Authorized</u>	<u>Remaining Commitment</u>	<u>Receivable Balances</u>
Completed projects	\$ 898,023,903	\$ -	\$ 593,300,713
Projects in progress	200,180,321	112,588,400	<u>87,591,921</u>
Total			680,892,634
Payment requests in progress (Received as of June 30, 2014, but not yet paid)			-
Less amount due in one year			<u>(47,467,256)</u>
Loans receivable, June 30, 2014 (Net of current maturities)			<u><u>\$ 633,425,378</u></u>

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

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

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3. Loans Receivable (Continued)

Loans to Major Local Entities

As of June 30, 2015, the Account made loans to the following major local entities. The aggregate outstanding balance for each of these entities exceeds 5 percent of total loans receivable. The combined outstanding balances of these loans at June 30, 2015 and 2014 represent approximately 43.2 and 40.2 percent of the total loans receivable and are as follows:

(Figures are in Thousands)

<u>Borrower</u>	2015		2014
	Authorized Loan Amount	Outstanding Loan Balance	Outstanding Loan Balance
City of Tacoma	\$ 73,701	\$ 53,820	\$ 57,449
King County Department of Natural Resources	183,643	127,261	109,972
Lake Stevens Sewer District	45,202	44,097	46,088
Lott Wastewater Alliance	71,685	60,620	60,470
	<u>\$ 374,231</u>	<u>\$ 285,798</u>	<u>\$ 273,979</u>

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

4. Capital Contributions

The Account is funded by grants from EPA authorized by the Clean Water Act and by matching funds from the State. All funds drawn are recorded as non-operating revenue from the EPA and Washington State. Since 1989, EPA has awarded a total of approximately \$677,784,460 in grants to the State, of which approximately \$631,668,322 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$112,703,139 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:

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SFY 15 (7/1/14 – 6/30/15)
EXHIBIT 1: Notes to the Financial Statements for FY15**

(Figures are in Thousands)

Year	Grant Award	Funds Drawn As of June 30, 2013	Funds Drawn During Year Ended June 30, 2014	Funds Drawn As of June 30, 2014	Funds Drawn During Year Ended June 30, 2015	Funds Drawn As of June 30, 2015	Available for Loans as of June 30, 2015
1989-2009	\$ 476,311	\$ 476,311	\$ -	\$ 476,311	\$ -	\$ 476,311	\$ -
2010	35,433	35,433	-	35,433	-	35,433	-
2011	25,680	3,373	22,307	25,680	-	25,680	-
2012	24,578	-	8,545	8,545	16,033	24,578	-
2013	23,247	-	-	-	1,514	1,514	21,733
2014	24,383	-	-	-	-	-	24,383
	<u>609,632</u>	<u>515,117</u>	<u>30,852</u>	<u>545,969</u>	<u>17,547</u>	<u>563,516</u>	<u>46,116</u>
2008-ARRA	<u>68,152</u>	<u>67,056</u>	<u>1,096</u>	<u>68,152</u>		<u>68,152</u>	<u>-</u>
	<u>\$ 677,784</u>	<u>\$ 582,173</u>	<u>\$ 31,948</u>	<u>\$ 614,121</u>	<u>\$ 17,547</u>	<u>\$ 631,668</u>	<u>\$ 46,116</u>

4. Capital Contributions (Continued)

(Figures are in Thousands)

	State Match Applied As of June 30, 2013	State Match Applied During Year Ended June 30, 2014	State Match Applied As of June 30, 2014	State Match Applied During Year Ended June 30, 2015	State Match Applied As of June 30, 2015
State Disbursed	<u>\$ 103,024</u>	<u>\$ 6,172</u>	<u>\$ 109,196</u>	<u>\$ 3,507</u>	<u>\$ 112,703</u>

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

4. Capital Contributions (Continued)

Administrative Fund

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

	<u>June 30,</u> <u>2015</u>	<u>June 30,</u> <u>2014</u>
Administrative fee collected	\$ 1,189,363	\$ 15,278
Interest on admin fee collected	<u>\$ 947</u>	<u>\$ -</u>
	<u>\$ 1,190,310</u>	<u> </u>
Operating expenses incurred	<u>\$ -</u>	<u>\$ -</u>

5. Contingencies and Subsequent Events

Contingencies

The Account is exposed to various risks of loss, related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Account business, or acts of God. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The Account maintains insurance for all risks of loss which is included in the indirect costs allocated to the Account. There have not been any claims against the Account since its inception in 1989. Refer to the State’s Risk Management disclosure in the June 30, 2015 and 2014, Comprehensive Annual Financial Reports.

6. Retirement Plans

Plan Description

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

6. Retirement Plans (Continued)

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

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

PERS plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS 1 and 2 plan members are vested after the completion of 5 years of eligible service. PERS 3 plan members are vested after 10 years of service or after 5 years of service, if 12 months of this service are earned after age 44.

For the year ended June 30, 2014, the investment rate of return on investments was 7.8 percent. For years ended 2014, 2013 and 2012 the rate was 7.8, 7.9 and 7.9 percent respectively.

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

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

Contributions, annual pension costs and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2014, 2013, and 2012 are not determinable at the Account level. However, this information is reported at a statewide level in the State of Washington's Comprehensive Financial Report.

6. Retirement Plans (Continued)

Other Post Employment Benefits

Plan Description

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

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

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

Contributions are set each biennium as part of the budget process. In fiscal years 2014 and 2013, respectively, the cost of the subsidies was approximately 5.9 and 6.0 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

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

More information on the State Retirement plan can be found in the State CAFR <http://www.ofm.wa.gov/cafr/2014/CAFR14.pdf>.

Contributions, annual other post employment benefit costs and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2014, 2013, and 2012 are not determinable at the Account level. However, this information is reported at a statewide level in the State of Washington's Comprehensive Financial Report.

Information for fiscal year 2015 was not available at the time of this report.

WASHINGTON STATE DEPARTMENT OF ECOLOGY
 CWSRF ANNUAL REPORT FOR SFY 15 (7/1/14 – 6/30/15)
 EXHIBIT 2: Disbursements and Accruals

	SFY 2015	Federal	State
2015 DISBURSEMENTS FOR LOANS	\$ 20,551,633	\$17,125,673	\$ 3,425,960
2015 DISBURSEMENTS FOR ADMIN	\$ 1,260,708	\$ 1,050,548	\$ 210,160
TOTAL DISBURSEMENTS	\$ 21,812,341	\$18,176,221	\$ 3,636,120
2015 CASH DRAW FROM CAPITALIZATION GRANTS	(\$18,176,221)		
2015 STATE MATCH (20% of CASH DRAWS)	(\$3,636,120)		
2015 100% STATE FUNDS DISBURSEMENTS	\$ 9,059,656		
TOTAL DISBURSEMENTS LOAN, ADMIN, FED AND STATE	\$ 30,871,997		
PERCENTAGE OF CASH DRAW FROM CAPITALIZATION GRANTS TO TOTAL DISBURSEMENTS	83.33%		
ADMIN CALCULATION	4%		

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF ANNUAL REPORT FOR SRY 15 (7/1/14-6/30/15)
EXHIBIT 3: Comparative Statement of Net Position**

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	217,837,096	\$ 166,939,406
Collateral Held/Security Lending Agreements	6,116,710	4,690,715
Receivables:		
Due from federal government	1,354,788	1,369,679
Loan interest	2,332,228	2,195,208
Due from other funds	178,874	118,436
Loans receivable:		
Current portion	<u>47,689,616</u>	<u>47,467,256</u>
Total current assets	<u>275,509,313</u>	<u>222,780,700</u>
OTHER ASSETS		
Loans receivable:		
Noncurrent	<u>613,831,101</u>	<u>633,425,378</u>
Total other assets	<u>613,831,101</u>	<u>633,425,378</u>
TOTAL ASSETS	<u>889,340,414</u>	<u>856,206,078</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	(14,849,074)	2,174,223
Due to other funds	9,846,999	152,143
Obligation Under Security Lending Agreement	<u>6,116,710</u>	<u>4,690,715</u>
Total current liabilities	<u>1,114,635</u>	<u>7,017,081</u>
NET POSITION		
Unrestricted	<u>888,225,779</u>	<u>849,188,997</u>
Total net position	<u><u>888,225,779</u></u>	<u><u>\$ 849,188,997</u></u>

WASHINGTON STATE DEPARTMENT OF ECOLOGY
 CWSRF ANNUAL REPORT FOR SFY 15 (7/1/14-6/30/15)
 EXHIBIT 4: Comparative Statement of Revenues, Expenses, and Changes In Net Position

	<u>2015</u>	<u>2014</u>
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
OPERATING REVENUE		
Loan interest income	12,226,612	\$ 12,506,051
Total operating revenue	<u>12,226,612</u>	<u>12,506,051</u>
OPERATING EXPENSES		
Personnel services	924,793	948,652
Other expenses	335,915	360,160
Total operating expenses	<u>1,260,708</u>	<u>1,308,812</u>
INCOME FROM OPERATIONS	<u>10,965,904</u>	<u>11,197,239</u>
NONOPERATING REVENUE (EXPENSE)		
Net investment income	791,376	215,382
Loan Principal Forgiveness expense	(6,396,723)	(2,600,300)
Total nonoperating revenue (expense)	<u>(5,605,347)</u>	<u>(2,384,918)</u>
INCOME BEFORE CONTRIBUTIONS	<u>5,360,557</u>	<u>8,812,321</u>
CONTRIBUTIONS		
EPA capitalization grant	18,176,224	31,948,108
State match revenue	15,500,000	5,950,069
Total contributions	<u>33,676,224</u>	<u>37,898,177</u>
CHANGE IN NET POSITION	39,036,781	46,710,498
NET POSITION - BEGINNING OF YEAR	<u>849,188,997</u>	<u>802,478,499</u>
NET POSITION - END OF YEAR	<u>\$ 888,225,778</u>	<u>\$ 849,188,997</u>

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

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from interest on loans	\$ 12,089,592	\$ 12,342,944
Loans disbursed	(28,296,843)	(56,433,314)
Principal received on loans receivable	41,272,038	39,796,647
Cash paid to employees and vendors	(8,649,587)	(1,664,826)
Cash flows provided (required) by operating activities	<u>16,415,200</u>	<u>(5,958,549)</u>
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA	18,191,115	30,635,754
Funds received from the state of Washington	15,500,000	5,950,069
Cash flows provided by noncapital financing activities	<u>33,691,115</u>	<u>36,585,823</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income received	791,376	215,382
Net cash provided by investing activities	<u>791,376</u>	<u>215,382</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	50,897,690	30,842,656
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>166,939,406</u>	<u>136,096,750</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 217,837,096</u>	<u>\$ 166,939,406</u>
 Reconciliation of operating income to net cash required by operating activities		
Income from operations	\$ 10,965,904	\$ 11,197,239
Adjustments to reconcile income from operations to net cash required by operating activities:		
Effect of changes in operating assets and liabilities:		
Loan interest receivable	(137,020)	(163,107)
Due to other funds	(60,438)	(903)
Loans receivable	12,975,195	(16,636,667)
Accounts payable and accrued expenses	(17,023,297)	(2,011,183)
Due to other funds	9,694,856	9,814,157
Net cash provided (required) by operating activities	<u>\$ 16,415,200</u>	<u>\$ 2,199,536</u>

During the years ended June 30, 2015 and 2014, in accordance with the EPA capitalization grant requirements, the program granted principal forgiveness of \$6,396,723 and \$2,600,300, respectively.