

Kansas Water Pollution Control Revolving Fund Annual Report for Fiscal Year 2020



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Prepared by:

Kansas Department of Health and Environment
Division of Environment
Bureau of Water
Curtis State Office Building
1000 Jackson St
Topeka KS, 66612



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I. Introduction

This is the Kansas Annual Report for state fiscal year 2020 (July 1, 2019 through June 30, 2020 also referred to as program year) for the Kansas Water Pollution Control Revolving Fund (KWPCRF, Loan Fund, or Fund). This Report describes how the State of Kansas has met the goals and objectives of its Clean Water State Revolving Loan Fund (CWSRF) as identified in the Intended Use Plan, the actual use of funds, and the financial position of the KWPCRF. The KWPCRF helps protect the health of Kansas by financing infrastructure improvements which provide treatment of sewage and wastewater.

The Fund is a revolving loan fund program that provides financial assistance in the form of loans to Kansas municipalities, at below market interest rates, to finance water pollution control projects. The Annual Report is required by KSA 65-3328 to describe how the State met the goals and objectives for the previous year as identified in the Intended Use Plan (IUP) required by KSA 65-3325. The federal Clean Water Act (CWA) also requires a report. Additional Environmental Protection Agency (EPA) requirements for the contents of this report are contained at 40 CFR Part 35, Subpart K.

II. Program Description

Although the Loan Fund uses multiple sources for its operation, it is made possible by receipt of capitalization grants from the EPA. Kansas must provide 20% matching funds to receive the capitalization grant. The Fund has provided matching funds by issuing state match revenue bonds. As of June 30, 2020, \$79,516,690 has been deposited in the Fund as state match which is 20.38% of the \$390,163,447 of awarded capitalization grants that require state match. The state match bonds are repaid with the interest portion of loan repayments and other interest earnings of the Fund.

In the early years of the Program, state match bonds were issued for a specific grant year. But as the Program grew, bond issues were structured to obtain excess state match bond proceeds which are then credited towards match requirements of subsequent capitalization grants. The table below shows state match deposits associated with recent grants.

Grant Year	Grant Amount	State Match Required	2018SRF-1 Issued 4/5/2018	2019SRF Issued 2/28/2019	2020SRF Issued 2/27/2020
FFY 2018	\$14,488,000.00	\$2,897,600.00	\$2,778,799.53		
FFY 2019	\$14,342,000.00	\$2,868,400.00	\$221,200.47	\$2,647,199.53	
FFY 2020	\$14,344,000.00	\$2,868,800.00		\$852,800.47	\$2,015,999.53
FFY 2021*	\$14,344,000.00	\$2,868,800.00			\$1,484,000.47
Total Bond Issue			\$3,000,000.00	\$3,500,000.00	\$3,500,000.00

* Grant not yet awarded amounts estimated

Table 1

Another significant source of funds used in the KWPCRF is leveraged bond proceeds. The KWPCRF's first leveraged bond issue was in 1993 and the most recent issue was in 2020 (the 2020 issue was for refunding previously issued bonds). All KWPCRF outstanding bonds issued have been AAA rated.

The KWPCRF can operate as both a leveraged reserve loan program and a cash flow leveraged loan program. Currently it is operated as a cash flow leveraged program. In a leveraged reserve program, the EPA capitalization grant is not loaned to municipalities. Instead, the capitalization grant is deposited in a reserve account, and pledged as security for repayment of state issued revenue bonds (leveraged bonds). The revenue bond proceeds are loaned to municipalities. Investment earnings from the reserve account are combined with loan repayments from municipalities, thus allowing loans to be offered at interest rates less than the market rate.

In a cash flow leveraged loan program the EPA capitalization grant is directly loaned out and the repayments of those loans are pledged as security for repayment of state issued revenue bonds (leveraged bonds). The revenue bond proceeds are also loaned to municipalities and such loans are pledged as security for repayment of the state issued revenue bonds. Since a portion of loans are funded with EPA capitalization grant funds which the Program does not pay interest on, the pool of loans can be offered at interest rates less than the market rate.

Funding to implement and administer the Loan Fund is available through the federal capitalization grant and from a service fee built into the loan interest rate. No state general funding is used for the Program.

The Kansas Water Pollution Control Revolving Fund and the Kansas Public Water Supply Loan Fund (KPWSLF) have cross collateralization mechanisms that are explained in the Intended Use Plan. The cross-collateralization mechanisms did not require any funds to be transferred from one program to the other during this annual report period.

III. Goals and Objectives

The State must prepare an Intended Use Plan (IUP) on an annual basis. The IUP lists projects anticipated to be funded, the criteria used to determine which projects receive funding, and short term and long-term goals for the Program. This section of the annual report discusses the progress that has been made in meeting those short- and long-term goals.

A. Short Term Goals and Objectives

To provide financial assistance to water quality improvement projects for discharge to streams and water bodies within "high quality watersheds" consistent with the provisions of the Project Priority System.

The program has been successful in accomplishing this goal as the projects for Fredonia, Riley, Kinsley, Conway Springs, Cimarron, Andale, Shawnee County, and Hiawatha funded improvements in support of the Governor's Water Quality Initiative.

To provide financial assistance for sewerage facilities to municipalities with population of 5,000 or less.

The fund is continuing to be popular with small communities as 9 of the 10 loans executed in SFY 2020 were for municipalities with populations of 5,000 or less. New loans associated with these small systems accounted for \$24.1M. For the program to date, about 30.5% of monies in loan agreements have been to small communities.

To assure compliance with Water Quality Standards and effluent limitations through encouraging construction of sewerage improvements in support of KDHE Permitting and Enforcement activities.

The sewer rehabilitation projects and/or subsequent I/I removal associated with loans for Fredonia, Riley, Kinsley, Conway Springs, Cimarron, Andale, Shawnee County and Norcatgur assure compliance with Water Quality Standards.

To encourage municipalities to use the KWPCRF for solving problems related to public health protection, water quality improvement, sludge handling improvements, and wastewater treatment facilities compliance through the construction of sewerage projects.

The loans for Fredonia, Riley, Kinsley, Conway Springs, Cimarron, Andale, Shawnee County, and Norcatgur will be used for projects that will improve sewerage systems to help resolve NPDES compliance issues.

To assure compliance with domestic sewage sludge reuse criteria and disposal practices through construction of any necessary sludge handling improvements to comply with the 40 CFR Part 503 EPA regulations.

Various projects help accomplish this goal by upgrading the sludge handling aspects of existing or new mechanical treatment facilities when the overall project is completed. KDHE preliminary project activities through the year continue to address this need, and we expect continued loan activity in the coming year.

Fund green infrastructure, water and energy efficiency and environmentally innovative projects in an amount that is at least ten percent of the capitalization grant.

The KWPCRF has either exceeded or met this requirement for all grants through the 2019 capitalization grant. The loan to Wetmore funded a non-point source project that met the GPR requirements for the 2018 and 2019 capitalization grants (see Exhibit 11 for project details). The remaining funds for the Wetmore loan along with the loan for Cimarron were allocated to the 2020 grant GPR requirement. Loans executed in SFY 2021 are expected to meet the remaining 2020 and any anticipated 2021 GPR requirements.

Provide the maximum allowable amount of principal forgiveness available to selected projects.

Projects for communities that could not otherwise afford necessary projects continue to be

coordinated with the CDBG grants program and the Rural Development grant and low interest loan funding programs thru the Kansas Interagency Advisory Committee (KIAC) process. The loan for Wetmore is the only SFY 2020 loan that included principal forgiveness.

To encourage municipalities to use the KWPCRF to implement EPA's Sustainability Policy.

EPA's Sustainability Policy encourages states to develop projects and provide funding to projects that repair existing infrastructure, promote effective utility management, or provide long term planning. These Sustainability Policy principals are also implemented through the KIAC discussions with other agencies. The loans for Fredonia, Riley, Kinsley, Conway Springs, Cimarron, Andale, Shawnee County, and Norcatour are for projects to repair existing infrastructure.

To encourage Green Project Reserve (GPR) designs in projects selected to be funded, and to emphasize funding to GPR and "KDHE Green" projects.

The KWPCRF has been successful in implementing this aspect of the federal program. KDHE will continue all efforts to fund GPR projects. The GPR status as of June 30, 2020 is shown in Section VII of this report.

Expedite project development and construction by encouraging projects to begin construction within one year of providing the KWPCRF low interest loan.

The KWPCRF program is working to accomplish this short timeframe goal between loan execution and construction start. Loans for Louisburg and Kinsley which started construction during SFY 2020, met this goal.

Continue implementing of the current and successful financial model.

The KWPCRF continues to work with the Kansas Development Finance Authority (KDFFA) and the financial consultants to the KWPCRF, to monitor and track the current status of the KWPCRF and the KPWSRF under the cross- collateralization agreements of the Master Financing Indenture (MFI), and update the financial modeling software as deemed appropriate. KDHE will continue to work with other state agencies under the IAA to continue implementation of the KWPCRF. Financial Statements show the Fund continues to grow in assets.

Operating Procedures.

The policies and procedures of the KWPCRF are continually reviewed and updated as necessary, to simplify and improve efficiency of the application, approval, financing, payments, and close out processes. A new streamlined application form was developed during the program year.

B. Long Term Goals and Accomplishments

In its Intended Use Plan, the State of Kansas made the following long-term commitments:

To maintain a self-supporting, effective and efficient, revolving loan program through the Kansas

Water Pollution Control Revolving Fund to provide the type and amount of assistance most advantageous to local communities and to provide low-cost financing for important water quality projects in order to improve and protect water quality and public health while maintaining the perpetuity of the CWSRF.

To date, this goal is being met. The long-term cash flow and fund balance projections developed by program financial advisors indicate the debt coverage ratios for the revenue bonds meet or exceed bond indenture requirements. The excess loan repayments are substantial and will continue to be deposited into the Program Equity account.

The service fees generated by the loan repayments continue to be used to pay for KDFA and the Kansas Department of Administration services. Service Fees are also helping to support KDHE administration of other water pollution control programs and provide funding for several operator training and assistance contracts from outside the Department.

To continue to fund water quality improvement, sludge handling improvements, public health protection, and other eligible projects on a priority basis as presented in the Project Priority List.

Projects are included on the Intended Use Plan (IUP) based on readiness to proceed. Continuing now and into the future, the new emphasis on nutrient discharge reduction will be implemented for both point source and non- point source sources of pollution

To support implementation of Water Quality improvements plans as presented within the Kansas Water Plan and TMDL plans written by KDHE and approved by EPA.

KDHE efforts have been successful, as reflected in the large number of water quality improvement projects funded in the past and targeted by the IUP for funding in the future. The KWPCRF also continues to target funding to projects in the Kansas Lower Republican River Basin and in the Lower Arkansas River Basin in support of the Governor's Water Quality Initiative and is targeting funding to projects required by TMDL WLAs or with discharges to High Quality Watersheds as described in the Project Priority System.

To provide funding to non-traditional borrowers for water quality improvement and public health protection projects, including non-point source pollution control projects. Expand CWSRF accessibility by creating financial assistance programs that address nonpoint source control and other nontraditional CWSRF projects.

Funding nontraditional borrowers is a significant challenge under state regulations, but efforts have been successful in utilizing passthrough entities. The loan to Wetmore was passed through to a nonprofit organization that used the loan proceeds to purchase no-till cover crop planting equipment. The use of this equipment by area farmers will help reduce soil runoff and irrigation. KDHE has also established a linked-deposit program to fund non-point source pollution control projects, however it has not funded any projects to date.

Work with other state funding sources to coordinate water quality and asset management financing.

The KWPCRF program continues to routinely meet with other agency programs that finance wastewater infrastructure in Kansas, including the U.S. Department of Agriculture's (USDA) Rural Development program, the Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program as administered by the Kansas Department of Commerce, and meets monthly with other state agencies that are parties to the IAA for the KWPCRF and KPWSLF. The financing programs continue to meet with potential applicant cities to discuss program application requirements and present funding packages, which can maximize cost savings to the applicant cities and improve efficiency of all programs. If projects are joint funded with other agencies, the CW SRF requirements promote asset management programs associated with the project.

Use effective outreach techniques to reach important water quality priorities and maintain a high pace level.

The KWPCRF continues to bring projects to the KWPCRF program that address the state's most important water quality priorities. Various outreach techniques continue to be used, including meetings with watershed organizations, participation in conferences, brochures, KIAC meetings, and personal visits to communities. The KWPCRF will continue these efforts and respond to evolving water quality and environmental priorities in the state and nationally.

Expand available financing by issuing KWPCRF leveraged bonds as and when needed.

With the assistance of KDFA, the KWPCRF has periodically leveraged by issuing tax-exempt revenue bonds which enabled funding for a greater number of projects than would otherwise have been possible. Leveraging bond issuance decisions are made based on loan disbursement cashflow needs and use modeling and financial analysis to evaluate their feasibility. There was not a need to issue leveraging bonds in SFY 2020 for new cashflow needs, however KDHE did issue leveraged refunding bonds, which refinanced previously issued bonds to take advantage of low market interest rates.

IV. Loan Fund Activity

Loan activity during SFY 2020 included 10 new loans, 7 increase amendments, and 7 decrease amendments for a net amount of \$30,658,844.68. Loan activity is represented in Exhibit 1. As of June 30, 2020, 503 loan commitments, for a total of \$1,389,396,076.82, have been made since the Program's inception. Figure 1 shows the last 5 years of loan and amendment amounts by fiscal year and Figure 2 shows the last 5 years of agreements by fiscal year. Table 2 describes projects funded during the fiscal year.

KWPCRF Loan Amounts (5 Year Trend)

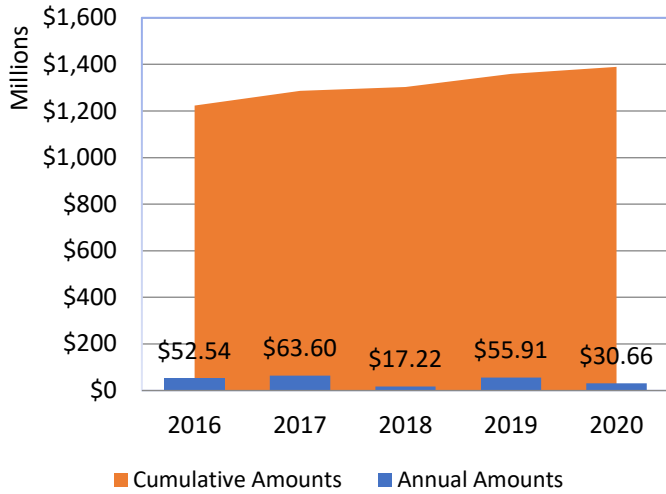


Figure 1

KWPCRF Loan Agreements (5 Year Trend)

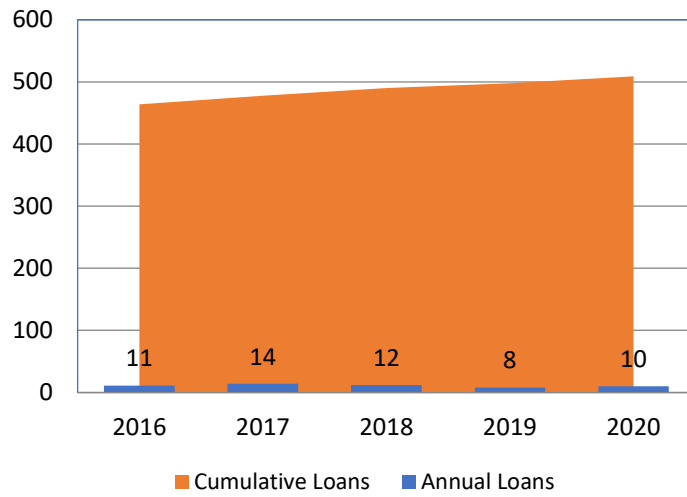


Figure 2

Municipality	Pop.	Loan Amount	Loan Effective (Binding Commitment) Date	Loan Execution Date	Project Description
City of Fredonia	2,225	\$500,000.00	8/19/2019	8/29/2019	Design, Repair, and Rehabilitation of the Wastewater Collection System
City of Riley	952	\$729,200.00	9/20/2019	10/16/2019	Rehabilitation of Sewer Main and Manholes by CIPP Lining
City of Kinsley	1,353	\$550,000.00	9/24/2019	10/24/2019	Rehabilitation of the Sanitary Sewer Main Outfall to the Lagoons
City of Conway Springs	1,218	\$2,977,275.00	10/7/2019	10/31/2019	Wastewater Collection and Treatment System Rehabilitation
City of Cimarron	2,201	\$1,754,900.00	2/18/2020	4/15/2020	Construction of a Wetland Cell, New Pump Station, and Control Piping and sludge removal
City of Wetmore	366	\$3,500,000.00	3/2/2020	4/15/2050	Purchase of No Till Cover Crop Seeders for Non-Point Source Pilot Project
City of Andale	987	\$208,000.00	4/6/2020	4/30/2020	De-sludge the Stabilization Lagoon
Shawnee County	176,875	\$7,000,000.00	4/6/2020	5/4/2020	Replace and Rehabilitate Sewer Infrastructure in the Sherwood Region
City of Hiawatha	3,118	\$309,177.00	4/16/2020	5/22/2020	Develop a Sanitary Sewer Peak Flow Management and Pump Station Study
City of Norcatour	144	\$24,000.00	4/24/2020	5/19/2020	Rehabilitate the Wastewater Treatment Lagoon

Table 2

V. Fund Financial Status

A. Available Funds

Funds become available to the Kansas Water Pollution Control Revolving Fund through several different sources. Capitalization grants provide funding for both loan disbursements and SRF administration spending. Bonds are issued to fund loan disbursements, and fees are charged to support administrative spending for both the CW SRF Program and the other Clean Water Act regulatory programs related to water quality. When loans are paid back and SRF bond debt service paid, the remaining funds are revolved and become sources for new loan disbursements. Below are charts that show sources for the program year and cumulatively.

During the fiscal year the KWPCRF was awarded the 2019 and 2020 capitalization grants (\$14,342,000 and \$14,344,000 respectively – see Exhibit 8 for Federal Grant Activity). The Program also received \$3,500,000 in bond proceeds that were used for loan disbursements to satisfy state match requirements. Leveraged bonds were also issued, however the proceeds from those bonds were used to pay off previously issued bonds which resulted in a Net Present Value Savings to the Program of \$8,457,284. Since the leveraged bonds were not used for loan disbursements they do not appear as a new source in the figure below.

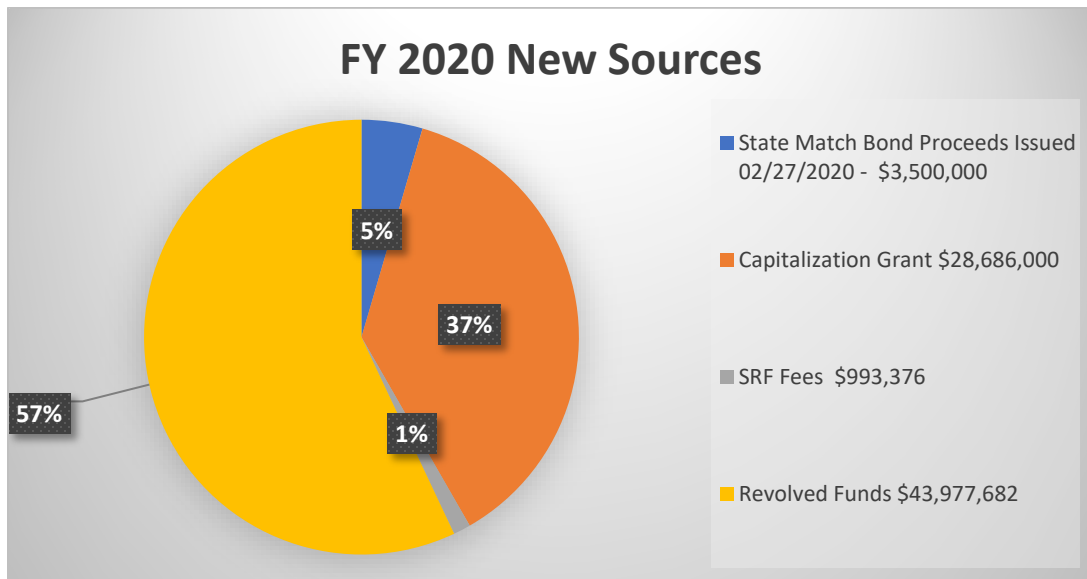


Figure 3

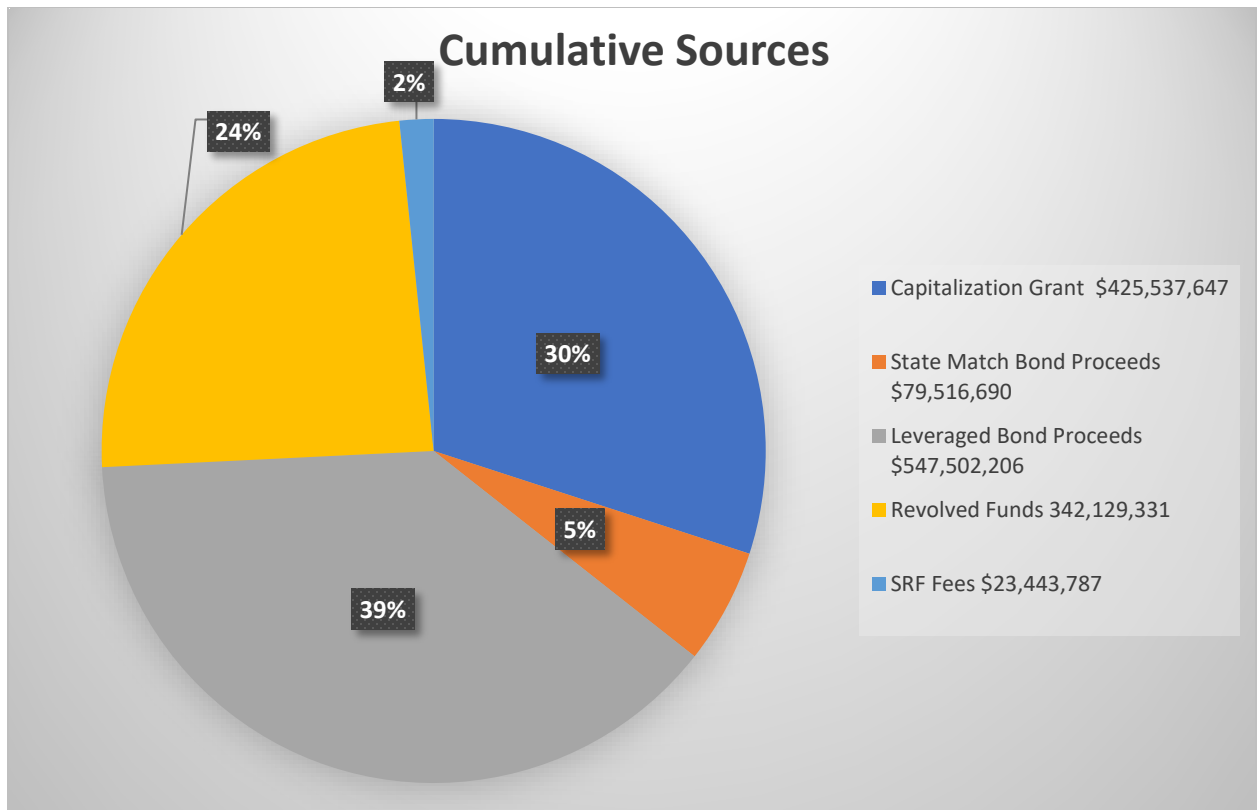


Figure 4

B. Assets, Liabilities, and Net Position

As illustrated by the Kansas Water Pollution Control Revolving Fund Statement of Net Position (found in Exhibit 10), the Program accumulated assets of \$464,978,171 including cash and investments of \$101,942,528, loans receivable of \$360,200,381, and other assets of \$2,835,262. Deferred amounts on refunding total \$76,117. Liabilities of \$64,282,391 were incurred including bonds payable of \$57,262,464, and other liabilities of \$7,019,927 leaving a Net Position of \$400,771,897.

Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Currently the fund has no investment in capital assets. Net position is reported as restricted when there are external limitations imposed on their use. All assets of the Program have been determined to be restricted assets in accordance with the conditions of the Kansas Water Pollution Control Revolving Fund EPA capitalization grants and bond covenants. Restricted net position includes EPA capitalization grants restricted for loans to municipalities and program administration expenses. The amount of capitalization grant restricted for program administration is being recognized as revenue when earned.

C. Revenues and Expenses

According to the Statement of Revenues, Expenses and Changes in Fund Net Position (found in Exhibit 10), the changes in Net Position of \$20,819,398 shows the KWPCRF experienced revenues over expenses in FY 2020. Revenues consist of \$27,265,808 in operating and non-operating revenues. Operating revenue includes interest earned on loans of \$8,385,431, EPA capitalization grant administration receipts (Grant Revenue) of \$365,616, service fee revenue of \$1,023,572 and other revenue totaling \$39,583. Non-operating revenue includes \$2,030,258 from other investments, \$14,390,810 drawn down from federal capitalization grants for loan disbursements and \$1,030,538 from Build America Bonds interest subsidy payments. Expenses consist of \$6,446,410 in operating and non-operating expenses. Operating expenses include program administration federal expenses of \$365,616 and other program administration expenses of \$1,426,415 paid from loan service fees. Non-operating expenses include bond interest of \$3,435,824 and other expenses of \$303,404.

D. Statement of Cash Flows

The Statement of Cash Flows (found in Exhibit 10) identifies the sources and the uses of cash during the fiscal year and demonstrates that the Fund had sufficient cash to meet its obligations.

E. Supplemental Schedules

Exhibit 2 provides detailed information regarding Investments, Accounts Receivable, and Accounts Payable included on the Statements of Net Position.

F. Binding Commitments

As shown in Exhibit 1, the KWPCRF entered into binding commitments (loan agreements) with 10 municipalities for a total \$17,552,522. Nine of the municipalities have a population less than 5,000. Exhibit 1 also shows 14 amendments to previous commitments for a net amendment total of \$13,106,293. Loan agreement activity increased commitment amounts by \$30,658,844.68 for FY 2020.

G. Projects Completed and Started

Projects for Moundridge, Junction City, Humboldt, Augusta, Lyndon, Burden, Hoxie, Grandview Plaza, Enterprise, Hoisington, and Atchison were completed in fiscal year 2020. Details are provided in Exhibit 3a. Projects Hoxie, Louisburg, Auburn, Grandview Plaza, Arlington, Jefferson County Sewer District No.5, Gridley, Kinsley, and Holyrood were started in fiscal year 2020. Details are provided in Exhibit 3b.

H. Quarterly loan activity

Quarterly loan activity, including loan disbursements and principal and interest repayments, is shown in Exhibit 4. At the end of FY20, \$1,289,540,887 had been disbursed to loan recipients (Project Payments, Interest Accrued, and Fees Accrued) with \$37,345,556 disbursed during the

year. Cumulatively, \$882,033,351 in principal and \$262,899,668 in interest had been repaid with \$69,577,334 of principal and \$8,721,257 of interest being repaid during the fiscal year.

VI. Compliance with Assurances and Grant Conditions

The EPA guidelines and grant conditions suggest several other areas for this annual report to address. This section of the report will address those areas not already addressed in other sections of the report.

- A.** The State must establish in the report that it has reviewed all SRF funded section 212 projects in accordance with the approved environmental review procedures.

Each of the 10 projects receiving assistance during fiscal year 2020 were reviewed in accordance with the “Environmental Review Procedure for the Kansas Water Pollution Control Revolving Loan Program”, dated March 21, 2011. All reviews resulted in preparation of a categorical exclusion or a Finding of No Significant Impact. Six increase amendments were due to increased construction costs without a scope change, so additional environmental assessments were not performed. The increase amendment for Fredonia involved a scope change so an environmental assessment for that amendment was made.

- B.** The State must establish that it deposited its match on or before the date on which each quarterly grant payment was made;

The grant payment for the entire 2019 capitalization grant was scheduled for September 1, 2019. A partial deposit for the 2019 capitalization grant was made on April 2018 and the remainder of the required deposit was made in February 2019.

The grant payment for the entire 2020 capitalization grant was scheduled for April 1, 2020. A partial deposit for the 2020 capitalization grant was made on February 2019 and the remainder of the required deposit was made in February 2020.

- C.** The State must make binding commitments to provide assistance equal to 120 percent of the amount of each grant payment within one year after receiving the grant payment.

As of June 30, 2020, total binding commitments were \$1,389,396,076.82 and 120% of total grant payments (excluding ARRA because it did not require state match) plus the ARRA Grant as of June 30, 2020, was 503,570,336.40. The KWPCRF has far exceeded this requirement, in fact the requirement was met over 18 years ago (June 30, 2002 binding commitments totaled \$549,560,514). See Exhibit 1.

- D.** The State must report information regarding pertinent information on environmental results.

Environmental Benefit reporting is updated at least quarterly as loan activity dictates on the Clean Water Benefits Reporting database maintained by EPA. Exhibit 5 shows the categories of

environmental categories for loan activity during the program year.

- E.** The State must report the types of fees charged on loans, the amount of fees collected, and how those amounts were used.

A portion of the gross interest rate charged on the outstanding balance of loans (predominantly 0.25%) is collected as a service fee. For loans with an effective date after May 31, 2018, the service fee is calculated differently through the first 4 years of repayments than in the remaining years of repayments. Through the first 4 years of repayments the service fee is equal to the gross interest rate minus 0.25%. For the remaining years of repayments, the service fee is equal to 0.25%. All service fees collected are held outside the SRF.

The service fees collected were \$993,376 with expenditures of \$1,087,426 which leaves an ending account balance of \$8,305,288.58.

Service fees can be divided into four categories – fees included in CWSRF loans (can only be used for SRF administration), program Income earned during the grant period (can only be used for SRF Administration or State match), program income earned after the grant period (can be used for SRF Administration, State Match, or other water quality related expenses), and fees other than program income (can be used for SRF Administration, State Match, or other water quality related expenses). Exhibit 9 shows the breakdown of the categories of fees collected and expended during the year. This exhibit shows the total of all fees included in loans and all program income earned during the grant period since the requirement was established in 2005 (\$1,631,810) was less than the total expenditures of fees used for SRF Administration (\$4,213,811). In other words, these fees were completely consumed by SRF Administration expenditures which complies with their restricted use. The other categories of fees are not restricted to just SRF administration and can also be used for other water quality related activities. Although the KWPCRF has not used fees for state match, KDHE anticipates doing so in the future.

Service fees were used to pay the costs of program bond servicing; arbitrage rebate analysis; program accounting; program marketing; Trustee services; software, hardware, office supplies, travel, salaries for Water Quality staff; salaries for KWPCRF staff; record storage; waste water operator technical assistance; Environmental Council of the States dues; Council of Infrastructure Financing Authorities dues; and the KPWSLF and KWPCRF annual audit. The KPWSLF and KWPCRF do not combine the financial administration of the Funds. Although no service fees were used to meet state match requirements during the program year, KDHE intends to use a portion of the service fees in this manner in the future. Use of all fee income complies with EPA requirements.

- F.** State must agree to expend all funds in the SRF in an expeditious and timely manner.

The structure of the KWPCRF promotes efficiency regarding expenditure of funds. Loan commitments are made based on loan fund capacity, but the funds to support expenditures of those loans are generated based on program cash flow needs. Because there can be a delay of 1 to 2 years between loan commitment and the first disbursement of that loan, this prevents the buildup of excessive idle cash in the Fund as would happen if funds were required at time of commitment. KDHE discontinued the practice of committing specific types of funds for specific loans at loan

execution; instead, the source of funds used for disbursements are determined at the time of each disbursement request.

- G.** The State must draw cash from the capitalization grant in the amount of the proportionate federal share of eligible incurred project costs (Proportionality).

All grant funds drawn for incurred project costs during the fiscal year were disbursed to loan recipients (cap grants were direct loaned). The required state match for the 2019 and 2020 grants were deposited and disbursed prior to any grant draws and therefore the proportionate federal share for incurred costs was 100%. This is also documented in the grant applications.

- H.** The State must show that it adopted and implemented procedures consistent with the requirements of 40 CFR 35.3530(d) and 40 CFR 35.3555(c)(9) if fund assets of the DWSRF program and CWSRF program were cross-collateralized.

An Attorney General certification that state law permits cross-collateralization was submitted to EPA in November of 2010. Cross collateralization was also described in the 2020 IUP.

- I. Capitalization grant conditions require KDHE to provide information in the annual report regarding additional subsidy compliance.**

The KWPCRF can provide additional subsidy under 2 different authorities. One authority is provided by individual federal appropriation laws (starting with the 2010 appropriation but excluding the 2015 appropriation) and the other authority is provided by the Clean Water Act under Section 603(i) (starting in FFY 2015).

Loans that are scheduled to receive additional subsidy, (principal forgiveness), from the 2015 through 2020 grants are listed in Exhibit 6. KDHE does not officially award principal forgiveness until all loan disbursements are made and the loan is finalized; therefore the amounts listed for loans that are not finalized are estimates (this is also indicated in the loan agreements). The final principal forgiveness is calculated according to qualifying criteria. Because these projects are not complete, or in some cases not even advertised for bids yet, the exact additional subsidy amount will be determined in the future and Exhibit 6 will be updated accordingly. Table 3 and 4 show the status of additional subsidy for each grant. Because principal forgiveness is not awarded until final loan disbursements are made, compliance with this requirement for the 2015 thru 2020 grants cannot be determined at this time.

Additional Subsidy Requirements (Congressional Appropriations)

Grant Year	Required Additional Subsidy Amount	Projected Additional Subsidy (Includes Loans that are not Finalized)	Awarded Additional Subsidy (Finalized Loans)	Estimated Additional Subsidy Finalization Date
2016	\$1,206,000.00	\$1,206,000.00	\$0.00	Jun-21
2017	\$1,196,700.00	\$1,196,700.00	\$1,196,700.00	Oct-20
2018	\$1,448,800.00	\$1,448,800.00	\$1,448,800.00	Oct-20
2019	\$1,434,200.00	\$854,500.00	\$854,500.00	Aug-22
2020	\$1,443,440.00	\$0.00	\$0.00	Aug-22
Totals	\$6,729,140.00	\$4,706,000.00	\$3,500,000.00	

Table 3

Additional Subsidy Requirements (Section 603(i) CWA eligibilities - No Minimums)

Grant Year	Maximum Additional Subsidy	Projected Additional Subsidy (Includes Loans that are not Finalized)	Awarded Additional Subsidy (Finalized Loans)	Estimated Additional Subsidy Finalization Date
2015	\$3,777,300	\$3,777,300	\$2,529,706	Dec-20
2016	\$3,618,000	\$3,618,000	\$1,894,495	Aug-21
2017	\$3,590,100	\$3,590,100	\$1,127,563	Aug-21
2018	\$4,346,400	\$3,544,520	\$0	Aug-21
2019	\$4,302,600	\$0	\$0	Aug-22
2020	\$4,303,200	\$0	\$0	Aug-22
Totals	\$28,240,800	\$14,529,920	\$5,551,764	

Table 4

- J.** The State must designate a group of loans equal to the capitalization grant amount that will be reported in compliance with the Federal Funding Accountability and Transparency Act (FFATA). These loans must meet all Equivalency requirements.

The Shawnee County Loan C20 2079 01 for \$7,000,000 which was awarded during the program year, is an equivalency loan for a portion of the 2018 grant. KDHE expects to assign equivalency loans for the remaining portion of the 2018, 2019 and 2020 grants during the 2021 program year. Other equivalency loans that were active during the 2020 program year were Liberal C20 1391 02 which is the equivalency loan for the 2015 grant. The equivalency loans for the 2016 (Hays C20 1989 01) and 2017 (Emporia C20 2002 01) grants disbursed their associated federal funds in program year 2018.

Equivalency projects must be listed in the FFATA database (see Exhibit 7) and comply with additional loan provisions including, but not limited to, compliance with the Single Audit Act, architectural and engineering procurement compliance with 40 U.S.C. 1101 et seq., Disadvantaged Business Enterprise procurement procedures, EPA signage guidance, and with the Uniform Relocation Assistance and Real Property Acquisition Policies Act.

K. The State report on compliance with the Green Project Reserve (GPR).

As shown in table 5 below, the KWPCRF has executed loans for at least 10% of the capitalization grant amounts for the 2013 through 2019 grants. KDHE anticipates executing loans during the 2021 program year to meet the remaining requirement for the 2020 grant.

Loan Recipient	Loan #	Loan Amount	GPR Amount	Grant Year for GPR	Minimum GPR requirement
Newton	C20 1747 03	\$18,151,651.00	<u>\$16,226,585.00</u> \$16,226,585.00	2013	\$1,205,100.00
JOCO Lake Gardner	C20 1920 01	\$10,193,392.00	\$745,600.00	2014	
Ellis	C20 1988 01	\$831,611.00	<u>\$520,000.00</u> \$1,265,600.00	2014	\$1,265,600.00
JOCO Lake Gardner	C20 1920 01	\$10,193,392.00	<u>\$1,316,014.00</u> \$1,316,014.00	2015	\$1,267,400.00
Dodge City	C20 1792 01	\$36,097,446.00	\$9,834,150.00	2016	
Jefferson Co SD #5	C20 2005 01	\$1,883,990.00	\$328,505.00	2016	
Kansas Water Office	C20 2022 01	\$1,200,000.00	<u>\$1,200,000.00</u> \$11,362,655.00	2016	\$1,206,000.00
Dodge City	C20 1792 01	\$36,097,446.00	\$382,000.00	2017	
Jefferson Co SD #5	C20 2005 01	\$1,883,990.00	<u>\$928,934.00</u> \$1,310,934.00	2017	\$1,196,700.00
Wetmore	C20 2070 01	\$3,500,000.00	<u>\$1,448,800.00</u> \$1,448,800.00	2018	\$1,448,800.00
Wetmore	C20 2070 01	\$3,500,000.00	<u>\$1,434,200.00</u> \$1,434,200.00	2019	\$1,434,200.00
Wetmore	C20 2070 01	\$3,500,000.00	\$617,000.00	2020	
Cimarron	C20 2082 01	\$1,754,900.00	<u>\$428,600.00</u> \$1,045,600.00	2020	\$1,434,400.00

Table 5

- L.** As a condition of the capitalization grant, the State must comply with the SRF Signage Guidelines.

The project for Shawnee County had not started construction during FY 2020. Once the project is ready to start construction, KDHE intends to issue a press release that meets EPA requirements. Previous equivalency loans have already satisfied this requirement.

Exhibits



Exhibit 1
Kansas Water Pollution Control Revolving Fund
Binding Commitments

Communities Served	Population	Project #	Assistance Amount	Binding Commitment Date	Interest rate	Date Loan Matures	QTR 1	QTR 2	QTR 3	QTR 4
New Loans										
City of Fredonia	2,225	C20 1750 01	\$500,000.00	August 19, 2019	2.12%	September 1, 2023	\$500,000.00			
City of Riley	952	C20 2013 01	\$729,200.00	September 20, 2019	2.01%	September 1, 2041	\$729,200.00			
City of Kinsley	1,353	C20 2074 01	\$550,000.00	September 24, 2019	2.01%	March 1, 2041	\$550,000.00			
City of Conway Springs	1,218	C20 2017 01	\$2,977,275.00	October 7, 2019	1.89%	September 1, 2021		\$2,977,275.00		
City of Cimarron	2,201	C20 2082 01	\$1,754,900.00	February 18, 2020	1.62%	September 1, 2041			\$1,754,900.00	
City of Wetmore	366	C20 2070 01	\$3,500,000.00	March 2, 2020	1.55%	September 1, 2020			\$3,500,000.00	
City of Andale	987	C20 2038 01	\$208,000.00	April 6, 2020	1.50%	September 1, 2040				\$208,000.00
Shawnee County	176,875	C20 2079 01	\$7,000,000.00	April 6, 2020	1.50%	September 1, 1941				\$7,000,000.00
City of Hiawatha	3,118	C20 2072 01	\$309,177.00	April 16, 2020	1.50%	September 1, 2025				\$309,177.00
City of Norcatur	144	C20 2059 01	\$24,000.00	April 24, 2020	1.50%	September 1, 2040				\$24,000.00
Total Loans			\$17,552,552.00							
Amendments										
City of Manhattan	54,599	C20 2064 01	\$400,000.00	July 15, 2019	2.38%	September 1, 2039	\$400,000.00			
City of Seneca	2,075	C20 2016 01	(\$204,181.55)	July 17, 2019	1.91%	September 1, 2038	(\$204,181.55)			
City of Willowbrook	85	C20 1199 01	\$12,881.07	July 22, 2019	2.91%	March 1, 2025	\$12,881.07			
City of Arlington	449	C20 2021 01	\$120,000.00	August 2, 2019	2.16%	September 1, 2039	\$120,000.00			
City of Manter	154	C20 2047 01	\$22,174.00	August 8, 2019	2.15%	March 1, 2039	\$22,174.00			
City of Oberlin	1,700	C20 1529 01	(\$50,884.84)	September 4, 2019	2.77%	March 1, 2026	(\$50,884.84)			
Jefferson County Sewer District No. 5	81	C20 2005 01	\$531,925.00	October 17, 2019	1.81%	March 1, 2039		\$531,925.00		
City of Holyrood	415	C20 2030 01	\$146,543.00	October 23, 2019	2.33%	September 1, 2039		\$146,543.00		
City of Nickerson	998	C20 1636 01	(\$794,949.64)	October 28, 2019	2.72%	March 1, 2020		(\$794,949.64)		
City of Fredonia	2,225	C20 1750 01	\$13,640,000.00	December 2, 2019	2.12%	September 1, 2023		\$13,640,000.00		
City of Humboldt	1,769	C20 2019 01	(\$325,853.38)	February 4, 2020	1.72%	September 1, 2038			(\$325,853.38)	
City of Augusta	9,345	C20 2009 01	(\$156,928.64)	February 18, 2020	1.81%	March 1, 2038			(\$156,928.64)	
City of Burden	526	C20 2031 01	(\$23,913.19)	June 11, 2020	2.13%	March 1, 2039				(\$23,913.19)
City of Moundridge	1,869	C20 1950 01	(\$210,519.15)	June 11, 2020	2.21%	March 1, 2039				(\$210,519.15)
Total Amendments			\$13,106,292.68							

Total Binding Commitments	\$30,658,844.68	\$2,079,188.68	\$16,500,793.36	\$4,772,117.98	\$7,306,744.66
Cumulative Binding Commitments	\$1,389,396,076.82	\$1,360,816,420.82	\$1,377,317,214.18	\$1,382,089,332.16	\$1,389,396,076.82

120% of Non ARRA Grant Payments plus ARRA Grant payment as of June 30, 2020

\$503,570,336.40

Exhibit 2

**Kansas Water Pollution Control Revolving Fund
Supplemental Schedules
For the Year Ended June 30, 2020**

SCHEDULE OF INVESTMENTS

MATURITY DATE	DESCRIPTION	AMOUNT	INTEREST RATE	YIELD TO MATURITY
INVESTMENTS - Loan Reserve Accounts				
06/01/2022	AIG - MTA Loan	\$ 162,774.10	5.300%	
11/25/2023	AIG - Topeka Oakland 2 Loan	2,095,249.00	5.300%	
Subtotal Investments - Loan Reserve Accounts		2,258,023.10		
INVESTMENTS - General				
10/14/2020	Glaxo Smithkline Fin Plc	129,405.47	0.000%	0.985%
INVESTMENTS - Program Equity				
10/14/2020	Anglesea Fdg Plc & Ang	5,664,618.10	0.000%	0.260%
09/16/2020	Banco Santander S.A.	4,955,092.79	0.000%	0.411%
09/30/2020	Banco De Credito E	3,006,141.78	0.000%	0.431%
09/02/2020	Bayerische Landesbank	4,473,580.60	0.000%	0.370%
08/05/2020	Cargill Inc	3,484,034.17	0.000%	1.386%
08/12/2020	Chesham FNC/Chesh LLC	5,066,432.40	0.000%	1.013%
07/04/2020	Exxon Corporation	3,821,225.97	0.000%	1.376%
10/14/2020	Glaxo Smithkline Fin Plc	736,615.73	0.000%	0.985%
08/26/2020	MountCliff FDG LLC	4,493,140.00	0.000%	0.491%
07/14/2020	Novartis Finance Corp	4,157,577.68	0.000%	1.669%
07/21/2020	Pfizer Incorporated	2,975,515.00	0.000%	2.510%
07/28/2020	Private Export Funding Corp	4,471,532.50	0.000%	1.942%
09/23/2020	Sumitomo Tr & BKG CO LTD	5,165,890.96	0.000%	0.240%
09/09/2020	Sumitomo Mitsui TR BK Singapor	4,473,955.05	0.000%	0.320%
08/19/2020	Toyota Motor Credit Co	9,789,058.86	0.000%	1.426%
		66,734,411.59		
INVESTMENTS - Redemption				
10/07/2020	Columbia FDG Co LLC	6,297,488.61	0.000%	0.270%
INVESTMENTS - Principal Revenue				
10/07/2020	Columbia FDG Co LLC	2,191,275.50	0.000%	0.270%
Subtotal Investments - Other Funds		75,352,581.17		
TOTAL INVESTMENTS		\$ 77,610,604.27		

Exhibit 2

**Kansas Water Pollution Control Revolving Loan Fund
Supplemental Schedules
For the Year Ended June 30, 2020**

SCHEDULE OF ACCOUNTS RECEIVABLE

DATE	DESCRIPTION	AMOUNT
06/30/2020	Loan Principal	\$ 34,292,809.43
06/30/2020	Loan Interest	2,457,294.39
06/30/2020	Loan Service Fees	339,577.27
06/30/2020	Interest Earnings	26,179.38
06/30/2020	Grant Revenue	12,210.77
	Accounts Receivable, Short-Term	37,128,071.24
06/30/2020	Loan Principal	325,907,571.64
	Accounts Receivable, Long-Term	325,907,571.64
	TOTAL ACCOUNTS RECEIVABLE	\$ 363,035,642.88

SCHEDULE OF ACCOUNTS PAYABLE

DATE	DESCRIPTION	AMOUNT
06/30/2020	Bond Principal	\$ 18,015,000.00
06/30/2020	Bond Interest	883,155.56
06/30/2020	Loan Reserve Account Earnings	53,207.63
06/30/2020	Payroll	50,996.20
06/30/2019	Miscellaneous Accounts Payable	104,761.46
	Accounts Payable, Short-Term	19,107,120.85
06/30/2020	Bond Principal	33,265,000.00
06/30/2020	Arbitrage Rebate	30,648.13
06/30/2020	Loan Reserve Accounts	5,897,157.81
	Accounts Payable, Long-Term	39,192,805.94
	TOTAL ACCOUNTS PAYABLE	\$ 58,299,926.79

Exhibit 3a
 Kansas Water Pollution Control Revolving Fund
 Schedule of Project Completions - FY 2020

Communities Served	Project Number	Assistance Amount	Binding Commitment Date	Construction Start Date	Construction Completion Date	Interst Rate on Loan	Date Loan Matures
Moundridge	C20 1950 01	\$2,492,080.85	July 1, 2017	April 30, 2018	July 17, 2019	2.21%	March 1, 2039
Junction City	C20 1973 01	\$11,094,000.00	September 29, 2015	April 15, 2016	July 19, 2019	2.27%	September 1, 2037
Humboldt	C20 2019 01	\$5,372,997.62	October 31, 2016	May 14, 2018	November 12, 2019	1.72%	September 1, 2038
Augusta	C20 2009 01	\$1,290,871.36	November 25, 2016	February 5, 2018	January 1, 2020	1.81%	March 1, 2038
Lyndon	C20 2011 01	\$9,832,000.00	October 25, 2016	April 2, 2018	January 29, 2020	1.72%	March 1, 2038
Burden	C20 2031 01	\$378,186.81	October 30, 2017	March 22, 2019	February 12, 2020	2.13%	March 1, 2039
Hoxie	C20 1425 01	\$3,959,966.00	October 2, 2017	July 2, 2019	March 28, 2020	2.13%	September 1, 2023
Grandview Plaza	C20 1828 01	\$1,474,880.86	January 31, 2017	September 9, 2019	May 6, 2020	2.16%	March 1, 2039
Enterprise	C20 1922 01	\$765,000.00	December 18, 2018	May 13, 2019	May 14, 2020	2.54%	March 1, 2024
Hoisington	C20 1968 01	\$1,343,120.00	October 7, 2015	March 1, 2019	May 21, 2020	2.26%	September 1, 2036
Atchison	C20 1305 02	\$2,800,000.00	October 30, 2018	March 18, 2019	June 10, 2020	2.38%	September 1, 2040

Total **\$40,803,103.50**

Exhibit 3b
 Kansas Water Pollution Control Revolving Fund
 Schedule of Project Starts - FY 2020

Communities Served	Project Number	Assistance Amount	Binding Commitment Date	Construction Start Date	Interest Rate on Loan	Date Loan Matures
Hoxie	C20 1425 01	\$3,959,966.00	October 2, 2017	July 2, 2019	2.13%	September 1, 2023
Louisburg	C20 2010 01	\$12,608,000.00	August 24, 2018	July 15, 2019	2.33%	September 1, 2043
Auburn	C20 2032 01	\$1,749,850.00	November 21, 2017	July 22, 2019	2.14%	September 1, 2039
Grandview Plaza	C20 1828 01	\$1,474,880.86	January 31, 2017	September 9, 2019	2.16%	March 1, 2039
Arlington	C20 2021 01	\$820,000.00	January 31, 2017	November 4, 2019	2.16%	September 1, 2039
Jefferson Co. (SD #5)	C20 2005 01	\$1,883,990.00	November 2, 2017	March 23, 2020	1.81%	March 1, 2039
Gridley	C20 2027 01	\$2,107,557.00	October 31, 2018	April 13, 2020	2.38%	March 1, 2025
Kinsley	C20 2074 01	\$550,000.00	September 24, 2019	April 13, 2020	2.01%	March 1, 2041
Holyrood	C20 2030 01	\$525,000.00	June 19, 2018	June 1, 2020	2.33%	September 1, 2039

Total **\$25,679,243.86**

Exhibit 4

**Kansas Water Pollution Control Revolving Fund
Project Loan Repayment and Interest Activity
For the Year Ended June 30, 2020**

	FY 1989-2019 TOTALS	FISCAL YEAR 2020				FY 2020 TOTALS	GRAND TOTALS
		QTR 1	QTR 2	QTR 3	QTR 4		
Total Project Payments	1,246,277,096	4,502,733	10,043,186	9,516,399	13,229,866	37,292,184	1,283,569,280
Total Interest Accrued	5,407,484	-	27,404	-	2,160	29,564	5,437,048
Total Fees Accrued	510,751	-	5,366	-	18,442	23,808	534,559
Total Principal Outstanding	393,347,410	381,334,477	361,241,923	355,440,019	360,200,381	360,200,381	360,200,381
Total Principal Forgiveness	46,391,904	295,532	4,704	615,015	-	915,251	47,307,155
Total Principal Payments	812,456,017	16,220,134	30,163,806	14,703,288	8,490,106	69,577,334	882,033,351
Total Interest Payments	254,178,411	4,145,139	392,098	3,867,646	316,374	8,721,257	262,899,668
Total Fee Payments	21,939,660	454,716	36,806	447,003	31,043	969,568	22,909,228

Exhibit 5
 State of Kansas
 Assistance Amount by Needs Category

NEEDS CATEGORY

PROJECT NAME COMMUNITIES SERVED	PROJECT NUMBER	CWT - Secondary Treatment	CWT - Advanced Treatment	CWT - Sewer System Rehab	CWT - New Interceptors	NPS - Agr BMPS Cropland
Loans						
City of Fredonia (Section 212)	C20 1750 01	500,000.00				
City of Riley (Section 212)	C20 2013 01			729,200.00		
City of Kinsley (Section 212)	C20 2074 01			550,000.00		
City of Conway Springs (Section 212)	C20 2017 01	500,000.00		1,500,000.00	977,275.00	
City of Cimarron (Section 212)	C20 2082 01	1,754,900.00				
City of Andale (Section 212)	C20 2038 01	208,000.00				
Shawnee County (Section 212)	C20 2079 01			7,000,000.00		
City of Hiawatha (Section 212)	C20 2072 01			309,177.00		
City of Norcatur (Section 212)	C20 2059 01	24,000.00				
City of Wetmore (Section 319)	C20 2070 01					3,500,000.00
Amendments						
City of Manhattan (Section 212)	C20 2064 01	400,000.00				
City of Seneca (Section 212)	C20 2016 01			(204,181.55)		
City of Willowbrook (Section 212)	C20 1199 01			12,881.07		
City of Arlington (Section 212)	C20 2021 01			120,000.00		
City of Manter (Section 212)	C20 2047 01	22,174.00				
City of Oberlin (Section 212)	C20 1529 01	(50,884.84)				
Jefferson County Sewer District No. 5 (Section 212)	C20 2005 01			531,925.00		
City of Holyrood (Section 212)	C20 2030 01	146,543.00				
City of Nickerson (Section 212)	C20 1636 01	(794,949.64)				
City of Fredonia (Section 212)	C20 1750 01			13,640,000.00		
City of Humboldt (Section 212)	C20 2019 01			(325,853.38)		
City of Augusta (Section 212)	C20 2009 01				(156,928.64)	
City of Burden (Section 212)	C20 2031 01		(23,913.19)			
City of Moundridge (Section 212)	C20 1950 01	(210,519.15)				
TOTAL		2,499,263.37	(23,913.19)	23,863,148.14	820,346.36	3,500,000.00

Additional Subsidy Requirements (Congressional Appropriations)

Municipality	Projected Additional Subsidy	Awarded Additional Subsidy (Finalized Loans)	Estimated Additional Subsidy Finalization Date
Grant Year 2016			
Jefferson County Sewer District #5	\$6,000.00		Aug-21 (Est.)
Kansas Water Office	\$1,200,000.00		Aug-21 (Est.)
	<u>\$1,206,000.00</u>	\$0.00	
Grant year 2017			
Wetmore		\$1,196,700.00	Sep-20
Grant Year 2018			
Wetmore		\$1,448,800.00	Sep-20
Grant Year 2019			
Municipalities to be Determined	\$579,700.00		Aug-22
Wetmore		\$854,500.00	Sep-20
	<u>\$579,700.00</u>	<u>\$854,500.00</u>	
Grant Year 2020			
Municipalities to be Determined	\$1,443,440.00		

Exhibit 6
 Kansas Water Pollution Control Revolving Fund
 Additional Subsidy Requirements

Additional Subsidy Requirements (Section 603(i) CWA eligibilities - No Minimums)

Municipality	Projected Additional Subsidy	Awarded Additional Subsidy (Finalized Loans)	Additional Subsidy Finalization Date
Grant Year 2015			
Anthony	\$1,247,593.51		Dec-20 (Est.)
Johnson County		\$1,468,351.02	Jun-19
Pratt		\$1,061,355.47	Apr-18
	<u>\$1,247,593.51</u>	<u>\$2,529,706.49</u>	
Grant Year 2016			
Garden Plain		\$372,141.40	Sep-15
Jefferson County Sewer District #5	\$323,505.04		Aug-21 (Est.)
Lyndon	\$1,400,000.00		Dec-20 (Est.)
Nickerson		\$1,050,888.96	Oct-19
Pratt		\$7,983.53	Apr-18
Willowbrook		\$463,481.07	Dec-19
	<u>\$1,723,505.04</u>	<u>\$1,894,494.96</u>	
Grant Year 2017			
Jefferson County Sewer District #5	\$685,186.32		Aug-21 (Est.)
Louisburg	\$1,622,335.12		Aug-21 (Est.)
Nickerson		\$364,947.40	Oct-19
Oberlin		\$762,615.16	Sep-19
Pittsburg	\$155,016.00		
	<u>\$2,462,537.44</u>	<u>\$1,127,562.56</u>	
Grant Year 2018			
Anthony	\$356,000.00		Dec-20 (Est.)
Jefferson County Sewer District #5	\$531,923.64		Aug-21 (Est.)
Louisburg	\$2,656,595.88		Aug-21 (Est.)
	<u>\$3,544,519.52</u>	<u>\$0.00</u>	
Grant Year 2019			
Municipalities to be Determined			
Grant Year 2020			
Municipalities to be Determined			

Formula Grant  FAIN 20000115

Completed


Awarding Agency

Environmental Protection Agency (EPA)

Recipient

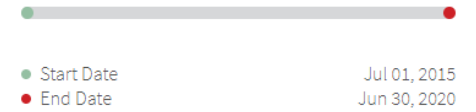
KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT



1000 S.W. JACKSON, SUITE 410
TOPEKA, KS 66612-1367


CFDA Program / Assistance Listing 

66.458 - CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS
[VIEW MORE INFO ABOUT THIS PROGRAM](#)


Dates 



 Award History 

Transaction History **2** 

Sub-Awards **3** 

Federal Account Funding **0** 

Total Count of Sub-Award Transactions: **3** Total Amount of Sub-Awards: **\$12.59 million** Percent of Prime Award Obligated Amount: **100.0%**






Sub-Award ID 	Recipient Name 	Action Date 	Amount 	Description 
C20 1989 01	HAYS, CITY OF	10/05/2015		EXPAND TREATMENT CAPACITY AND MAKE IMPROVEMENTS TO THE PRESENT MUNICIPAL WASTEWATER TR...
C20 1973 01	JUNCTION CITY, CITY OF	10/20/2015		CONSTRUCTION PHASE 1 PROCESS, STRUCTURAL, ARCHITECTURAL, AND ELECTRICAL IMPROVEMENTS
C20 1391 02	LIBERAL, CITY OF	06/23/2015	\$12,591,000	IMPROVEMENTS TO EXISTING WWTP AND INSTALL RELIEF INTERCEPTOR SEWER WITHIN THE EXISTING MU...

Exhibit 7

Formula Grant  FAIN 20000116

In Progress (9 months remain)


Awarding Agency

Environmental Protection Agency (EPA)

Recipient

KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT



1000 S.W. JACKSON, SUITE 410
TOPEKA, KS 66612-1367


CFDA Program / Assistance Listing 



66.458 - CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS
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

Dates 



 Award History 

Transaction History  

Sub-Awards  

Federal Account Funding  

Total Count of Sub-Award Transactions: **1** Total Amount of Sub-Awards: **\$12.06 million** Percent of Prime Award Obligated Amount: **100.0%**

Sub-Award ID 	Recipient Name 	Action Date 	Amount 	Description 
C20 1989 01	HAYS, CITY OF	10/05/2015	\$12,060,000	EXPAND TREATMENT CAPACITY AND MAKE IMPROVEMENTS TO THE PRESENT MUNICIPAL WASTEATER TRE...

Formula Grant  FAIN 20000117

In Progress (1 year, 10 months remain)


Awarding Agency

Environmental Protection Agency (EPA)

Recipient

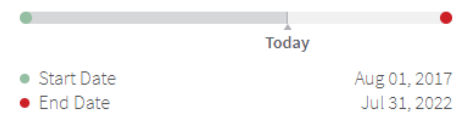
KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT



1000 SW JACKSON AVE
TOPEKA, KS 66612-1300

CFDA Program / Assistance Listing 



66.458 - CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS
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
Dates 



 Award History 

Transaction History  

Sub-Awards  

Federal Account Funding  

Total Count of Sub-Award Transactions: **1** Total Amount of Sub-Awards: **\$11.97 million** Percent of Prime Award Obligated Amount: **100.0%**

Sub-Award ID	Recipient Name	Action Date	Amount	Description
C20 2002 01	EMPORIA, CITY OF	12/23/2016	\$11,967,000	UPGRADES TO THE WASTEWATER TREATMENT FACILITIES

Formula Grant  FAIN 20000118

In Progress (2 years, 9 months remain)


Awarding Agency

Environmental Protection Agency (EPA)

Recipient

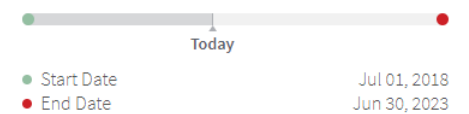
KANSAS DEPARTMENT OF HEALTH AND ENVIRONMENT



1000 SW JACKSON AVE
TOPEKA, KS 66612-1300



CFDA Program / Assistance Listing 

66.458 - CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS
[VIEW MORE INFO ABOUT THIS PROGRAM](#)

Dates 



 Award History 

Transaction History  

Sub-Awards  

Federal Account Funding  

Total Count of Sub-Award Transactions: **1** Total Amount of Sub-Awards: **\$7.00 million** Percent of Prime Award Obligated Amount: **48.3%**

Sub-Award ID	Recipient Name	Action Date	Amount	Description
C20 2079 01	COUNTY OF SHAWNEE	05/04/2020	\$7,000,000	REPLACEMENT/REHABILITATION WASTEWATER PROJECTS WITHIN THE SHERWOOD REGIONAL WWT AND ...

Exhibit 8
Kansas Water Pollution Control Revolving Fund
Status and Activity of Federal Grants
For the Year Ended June 30, 2020

	BEGINNING AVAILABLE BALANCE	QTR 1	QTR 2	QTR 3	QTR 4	FY 2020	ENDING AVAILABLE BALANCE
1989-2017 AND ARRA CAPITALIZATION GRANTS							
Award	382,363,647	-	-	-	-	-	382,363,647
Loan Disbursements	(371,484,152)	-	-	-	-	-	(371,484,152)
Program Administration	(10,879,495)	-	-	-	-	-	(10,879,495)
Available Balance	-	-	-	-	-	-	-
2018 CAPITALIZATION GRANT							
Award	14,488,000	-	-	-	-	-	14,488,000
Loan Disbursements	(13,043,677)	-	(1,048,810)	-	-	(1,048,810)	(14,092,487)
Program Administration	(320,686)	(74,827)	-	-	-	(74,827)	(395,513)
Available Balance	1,123,637	1,048,810	-	-	-	-	-
2019 CAPITALIZATION GRANT							
Award	-	14,342,000	-	-	-	14,342,000	14,342,000
Loan Disbursements	-	(695,442)	(4,545,299)	(8,101,259)	-	(13,342,000)	(13,342,000)
Program Administration	-	(25,409)	(104,106)	(77,853)	(83,769)	(291,137)	(291,137)
Available Balance	-	13,621,149	8,971,744	792,632	708,863	708,863	708,863
2020 CAPITALIZATION GRANT							
Award	-	-	-	-	14,344,000	14,344,000	14,344,000
Loan Disbursements	-	-	-	-	-	-	-
Program Administration	-	-	-	-	-	-	-
Available Balance	-	-	-	-	14,344,000	14,344,000	14,344,000
TOTAL CAPITALIZATION GRANTS							
Award	396,851,647	14,342,000	-	-	14,344,000	28,686,000	425,537,647
Loan Disbursements	(384,527,829)	(695,442)	(5,594,109)	(8,101,259)	-	(14,390,810)	(398,918,639)
Program Administration	(11,200,181)	(100,236)	(104,106)	(77,853)	(83,769)	(365,964)	(11,566,145)
Available Balance	1,123,637	14,669,959	8,971,744	792,632	15,052,863	15,052,863	15,052,863

Exhibit 9

**Kansas Water Pollution Control Revolving Fund
Sources and Distribution of Loan Service Fees
For the Year Ended June 30, 2020**

	10/20/05 - FY19 TOTALS	FY 2020	GRAND TOTALS
SERVICE FEE INCOME			
Fees Included in Loan Principal	510,751.00	23,808.33	534,559.33
Program Income Earned During the Grant Period	1,061,274.37	35,977.03	1,097,251.40
All Other Service Fees Collected	14,145,841.40	933,590.75	15,079,432.15
Total Service Fee Income	15,717,866.77	993,376.11	16,711,242.88
SERVICE FEE EXPENDITURES			
CW SRF Administration	3,828,656.51	385,154.27	4,213,810.78
State Match	-	-	-
Water Quality Related Purposes	6,709,889.56	702,271.61	7,412,161.17
Total Service Fee Expenditures	10,538,546.07	1,087,425.88	11,625,971.95
CONSUMPTION OF FEES INCLUDED IN LOAN PRINCIPAL AND PROGRAM INCOME DURING THE GRANT PERIOD			
CW SRF Administration Expenditures	3,828,656.51	385,154.27	4,213,810.78
Less: Fees Included in Loan Principal	(510,751.00)	(23,808.33)	(534,559.33)
Less: Program Income During the Grant Period	(1,061,274.37)	(35,977.03)	(1,097,251.40)
Excess CW SRF Administration Expenditures	2,256,631.14	325,368.91	2,582,000.05
CONSUMPTION OF ALL OTHER SERVICE FEES			
All Other Service Fees Collected	14,145,841.40	933,590.75	15,079,432.15
Less: Excess CW SRF Administration Expenditures	(2,256,631.14)	(325,368.91)	(2,582,000.05)
Less: State Match Expenditures	-	-	-
Less: Water Quality Related Expenditures	(6,709,889.56)	(702,271.61)	(7,412,161.17)
Excess Other Service Fees Collected	5,179,320.70	(94,049.77)	5,085,270.93
CONSUMPTION OF STATE MATCH EXPENDITURES			
Program Income During the Grant Period	1,061,274.37	35,977.03	1,097,251.40
All Other Service Fees Collected	14,145,841.40	933,590.75	15,079,432.15
Less: State Match Expenditures	-	-	-
Excess Program Income During the Grant Period and All Other Service Fees Collected	15,207,115.77	969,567.78	16,176,683.55

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

**FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

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INDEPENDENT AUDITORS' REPORT

Lee A. Norman, M.D.
Secretary of Kansas Department
Of Health and Environment
Topeka, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the Kansas Water Pollution Control Revolving Loan Fund (the Fund), an enterprise fund of the State of Kansas, as of and for the years ended June 30, 2020 and June 30, 2019, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Secretary of the Kansas Department of Health and Environment
Kansas Water Pollution Control Revolving Loan Fund

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the Fund as of June 30, 2020 and June 30, 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 – Organization and Summary of Accounting Policies, the basic financial statements of the Fund 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 Fund that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Kansas as of June 30, 2020 and the changes in their financial position and their cash flows, where applicable, for the year then ended, in conformity with the accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2020, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 22, 2020

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Kansas Water Pollution Control Revolving Fund (the Fund or Program) provides financial assistance to Kansas municipalities in the form of loans for the construction of publicly owned wastewater treatment facilities. The Fund is comprised of federal capitalization grants, proceeds of revenue bonds issued to provide required state-matching monies, proceeds of revenue bonds issued to leverage the Program, and recycled monies. This section of the financial report presents a narrative overview and analyzes the financial activities for the years ended June 30, 2020 and 2019. This information is intended to be considered in conjunction with the Fund's financial statements and notes to the financial statements which follow this section.

HIGHLIGHTS

The fiscal year ending June 30, 2020 was the Fund's thirty-first year of operations. During the fiscal year, the Fund continued to grow and serve Kansas communities as shown below:

- ❑ The federal fiscal year (FFY) 2019 and 2020 capitalization grants were awarded in the amounts of \$14,342,000 and \$14,344,000 respectively. No capitalization grants were amended.
- ❑ Capitalization grant dollars drawn down: \$14,390,810 for loans and \$365,964 for program administration expenses
- ❑ Series 2020SRF Revenue Bonds issued: \$3,360,000 for state match and \$47,920,000 for leveraged refunding
- ❑ Total available for loans: \$92,004,640
 - \$0 leveraged, \$13,544,000 capitalization grants, \$77,336,495 program equity, and \$1,124,145 general
- ❑ Total loan agreements: 503 loans totaling \$1,389,396,077 of which \$1,289,540,887 has been disbursed
- ❑ Loan agreements:
 - New loans: 10 totaling \$17,552,552
 - Loan amendments: 7 increases totaling \$14,873,523 and 7 decreases totaling \$1,767,230
- ❑ Disbursements for project costs: \$37,345,557
- ❑ Average monthly disbursements, FY 2020: \$3,112,130
- ❑ Average monthly disbursements, program-to-date: \$3,485,246
- ❑ Completed projects: 10 totaling \$30,995,017
- ❑ Total revenue bond debt service paid: \$20,700,000 in principal and \$5,423,315 in interest
- ❑ Total revenue bonds refunded: \$84,305,000

USING THIS ANNUAL FINANCIAL REPORT

The Fund is reported as an enterprise fund of the State of Kansas. The Fund is a special purpose government entity engaged only in the business type activity of providing loans to other governmental entities. We prepare three basic financial statements, notes to the financial statements, and required supplementary information including this Management's Discussion and Analysis (MD&A). The basic financial statements of the Fund are intended to present the financial position, changes in financial position, and cash flows of only the Fund. They do not purport to present the financial position, changes in financial position, or cash flows of the State of Kansas as of June 30, 2020 and 2019 and the years then ended.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements and accompanying notes to the financial statements. 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 Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. Assets consist of cash and cash equivalents, interest receivables from loans and investments, investments of idle funds, and loan receivables. Liabilities include revenue bond interest, other accounts payable, arbitrage rebate payable, loan reserve funds, and revenue bonds payable. Net position includes the capitalization grants earned for loan projects and the excess earnings of the Fund's operations since inception. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Fund is improving or weakening.
- ❑ The *Statements of Revenues, Expenses, and Changes in Net Position* present information showing how the Fund's net position changed during the two most recent fiscal years. As the statements are prepared on the accrual basis of accounting, 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. Therefore, some revenues and expenses reported in the statement will result in cash flows in future fiscal years.
- ❑ The *Statements of Cash Flows* present the inflows and outflows of the Fund's cash and cash equivalents by the defined categories of operating activities, noncapital financing activities, and investing activities. These statements provide information about the Fund's cash receipts and payments during the year.

The *Notes to the Financial Statements* are an integral part of the financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes immediately follow the financial statements.

NET POSITION

The Statements of Net Position demonstrate that the net position of the Fund has continued to increase.

	2020	2019	2018
Current and other assets	\$ 132,879,294	\$ 128,271,836	\$ 136,473,824
Noncurrent assets	332,098,877	364,893,102	354,964,759
Total assets	<u>464,978,171</u>	<u>493,164,938</u>	<u>491,438,583</u>
Deferred outflows of resources	76,117	1,100,871	1,435,346
Current and other liabilities	21,000,849	23,567,857	21,779,560
Noncurrent liabilities	43,281,542	90,745,453	109,845,666
Total liabilities	<u>64,282,391</u>	<u>114,313,310</u>	<u>131,625,226</u>
Total net position	<u>\$ 400,771,897</u>	<u>\$ 379,952,499</u>	<u>\$ 361,248,703</u>

In fiscal year 2020 the net position on the Fund continued to strengthen, increasing by \$20.8 million (5.5%). This compares to an increase of \$18.7 million (5.2%) the previous year.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The increase in current assets for the year ended June 30, 2020 of \$4.7 million was due mainly to an increase in cash and cash equivalents. There was a decrease in loans receivable of \$33.1 million. Additionally, investments decreased by \$0.9 million. Loan disbursements this fiscal year were \$37.3 million and loan repayments were \$34.6 million. In addition, loan prepayments totaling \$35.0 million were received this fiscal year.

The decrease in total liabilities for the year ended June 30, 2020 of \$50.0 million was due mainly to a decrease in bonds payable resulting from bond debt service principal payments during the year of \$20.7 million and a net change in bonds payable resulting from refunding of \$36.4 million. Bond interest payable also decreased by \$0.9 million due to the decrease in bonds payable.

The decrease in current assets for the year ended June 30, 2019 of \$8.2 million was due mainly to a decrease in current investments. There was a decrease in current loans receivable of \$2.6 million and an increase in noncurrent loans receivable of \$11.0 million. Additionally, loan reserve account cash and investments decreased by \$1.0 million. Loan disbursements this fiscal year were \$54.1 million. In addition, \$6.2 million of loan prepayments were received this fiscal year.

The decrease in total liabilities for the year ended June 30, 2019 of \$17.3 million was due mainly to a decrease in bonds payable resulting from bond debt service principal payments during the year of \$18.5 million. Bond interest payable also decreased by \$0.2 million due to the decrease in bonds payable. Additionally, loan reserve accounts payable decreased by \$1.0 million.

All net position of the Fund has been determined to be restricted net position in accordance with the conditions of the Water Pollution Control capitalization grants and bond covenants.

The balance of outstanding loan principal that was pledged as security to the outstanding revenue bond debt service at June 30, 2020 and 2019 was \$359.1 million and \$392.1 million respectively. The principal and interest received from these loans during the fiscal year is used to make the semi-annual debt service payments on the revenue bonds. After the final debt service payment in a fiscal year, any excess of principal and interest received over the required bond debt service may be used for future loan disbursements.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statements of Revenues, Expenses, and Changes in Net Position demonstrate that sufficient resources have been generated to cover expenses in fiscal years 2018, 2019, and 2020.

	2020	2019	2018
Revenues:			
Operating revenues:			
Loan interest	\$ 8,385,431	\$ 9,141,069	\$ 8,932,667
Loan service fees	1,023,572	981,306	922,491
Capitalization grants for program administration	365,616	432,507	392,796
Other revenues	39,583	51,335	407,346
Nonoperating revenues:			
Investment income	2,030,258	2,250,511	1,544,113
Other nonoperating revenues	1,030,538	1,038,253	1,034,371
Total revenues	<u>12,874,998</u>	<u>13,894,981</u>	<u>13,233,784</u>
Expenses:			
Operating expenses:			
Program administration - capitalization grants	365,616	432,507	392,796
Program administration - loan service fees	392,250	381,754	399,393
Other expenses	1,034,165	619,975	624,174
Nonoperating expenses:			
Loan principal forgiveness	915,251	2,868,483	1,227,244
Bond interest	3,435,724	5,058,705	5,379,001
Bond issuance costs	290,546	37,931	35,840
Arbitrage rebate	12,858	17,790	-
Total expenses	<u>6,446,410</u>	<u>9,417,145</u>	<u>8,058,448</u>
Increase (decrease) in net position before contributions	6,428,588	4,477,836	5,175,336
Capitalization grants for loans	14,390,810	14,225,960	11,515,225
Increase in net position	20,819,398	18,703,796	16,690,561
Total net position - beginning of year	379,952,499	361,248,703	344,558,142
Total net position - end of year	<u>\$ 400,771,897</u>	<u>\$ 379,952,499</u>	<u>\$ 361,248,703</u>

The increase in net position as of June 30, 2020 was \$20.8 million. The Fund operating revenues decreased by 7.5% due mainly to a decrease in loan interest revenue. The Fund operating expenses increased by 24.9% due to an increase in other expenses, consisting of water quality expenses. Principal forgiveness decreased by 68.1%. Nonoperating revenues and capitalization grants for loans decreased by 0.4% due mainly to a decrease in investment income. Nonoperating expenses (excluding principal forgiveness expense) decreased by 26.9% due to a reduction in bond interest expenses.

The increase in net position as of June 30, 2019 was \$18.7 million. The Fund operating revenues decreased by 0.5% due to a decrease in other revenue, consisting of excess earnings on loan reserve accounts. The Fund operating expenses increased by 1.3% due to an increase in administration expenses. Principal forgiveness increased by 133.7%. Nonoperating revenues and capitalization grants for loans increased by 24.3% due to an increase in grant draws of \$2.7 million and an increase in investment income of \$0.7 million. Nonoperating expenses (excluding principal forgiveness expense) decreased by 5.5% due to a reduction in bond interest expenses.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

MANAGEMENT'S DISCUSSION AND ANALYSIS

CASH FLOWS

The Statements of Cash Flows are provided to identify the sources and the uses of cash and cash equivalents during the fiscal year and to demonstrate that the Fund has sufficient cash and cash equivalents to meet its obligations.

The Fund experienced an increase in cash and cash equivalents during the year ended June 30, 2020 of \$6.2 million. The balance of the increase is due to routine program operations. Bond principal paid increased by \$2.2 million, and bond principal refunded increased by \$84.3 million. Proceeds from bonds increased by \$54.4 million. Loan principal collected increased by \$26.7 million and loan disbursements decreased by \$16.8 million. Proceeds from investment maturities increased by \$6.0 million, and investment purchases increased by \$10.8 million. Investments are generally purchased in \$10.0 million increments and allocated pro rata between the Kansas Public Water Supply Loan Fund and the Kansas Water Pollution Control Revolving Fund based on cash balances.

Short-term investments are purchased with maturity dates staggered such that a maturity occurs every week. This strategy allows funds to be readily available for weekly loan disbursements. A small cash balance is maintained with the trustee and invested in a highly liquid money market mutual fund. The majority of funds that are not used for disbursements are reinvested in the bond market weekly.

DEBT INFORMATION

The 2019 issuance of state match bonds was a public offering in conjunction with the Kansas Public Water Supply Loan Fund (KPWSLF) state match and leveraging bonds. The 2020 issuance of state match and leveraging bonds was also a public offering in conjunction with the KPWSLF state match and leveraging bonds. The Fund received a high bond rating of AAA with a stable outlook from S&P Global Ratings on both the Series 2019SRF and Series 2020SRF bonds. At this time, it is anticipated there will be a state match borrowing in the spring of 2021. Other potential leveraged bond issuances will occur in the future when it is deemed necessary to meet an increase in loan demand.

On February 28, 2019, the Series 2019SRF Revenue Bonds were issued in the original amount of \$47,445,000 for the Public Water Supply (PWS) and Water Pollution Control (WPC) Programs. The WPC portion of the bonds was issued in the original amount of \$3,405,000 and consisted of tax-exempt serial bonds. The interest rate on the bonds was 5.00%. The bonds matured on May 1, 2020, with principal paid at maturity and interest paid semi-annually beginning November 1, 2019. The proceeds, along with premium received on the bonds, provided \$3,500,000 of state match loan funds for the Program and an amount required to pay costs of issuance.

On February 27, 2020, the Series 2020SRF Revenue Bonds were issued in the original amount of \$68,730,000 for the Public Water Supply (PWS) and Water Pollution Control (WPC) Programs. The WPC portion of the bonds was issued in the original amount of \$51,280,000 and consists of tax-exempt serial bonds totaling \$51,280,000 as of June 30, 2020. The bonds are due in annual principal payments ranging from \$970,000 to \$18,015,000 with the final payment due on May 1, 2030. The interest rate on the bonds is 5.00% and paid semi-annually beginning November 1, 2020. The proceeds, along with premium received on the bonds, provided \$3,500,000 of state match loan funds for the Program, \$54,151,914 of leveraging funds to refund the Series 2010SRF bonds, and an amount required to pay costs of issuance.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prior to the 2010SRF bonds, all bonds issued for this Program were tax-exempt revenue bonds. The Series 2010SRF-1, Series 2019SRF, and Series 2020SRF bonds are also tax exempt. The Series 2010SRF-2 bonds were taxable Build America Bonds. As a requirement for issuance of tax-exempt bonds, the Internal Revenue Service requires issuers to calculate and remit the amount of earnings attributable to the bonds that are in excess of the cost of the debt. As of June 30, 2020 and 2019, there is no rebate liability for the Series 2010SRF bonds. As of June 30, 2020 and 2019, there is a rebate liability for the Series 2019SRF bonds of \$0 and \$17,790 respectively. As of June 30, 2020, there is a rebate liability for the Series 2020SRF bonds of \$30,648. The Fund's revenue bonds payable totaled \$51,280,000 and \$105,005,000 at June 30, 2020 and 2019, respectively. Please refer to the notes to the financial statements for more information on debt activity.

Effective October 30, 2018, the Securities and Exchange Commission (SEC) adopted the 2018 Amendments to Rule 15c2-12 of the Securities Exchange Act with a compliance date of February 27, 2019. These amendments include two additional disclosure events that require notice in continuing disclosure undertakings. In response to these changes, a Revolving Fund Disclosure Team was formed to provide oversight to the Fund and ensure reporting requirements are met. Additionally, KDHE SRF Disclosure Policies and Procedures were established. The issuance of the Series 2019SRF and Series 2020SRF bonds comply with the new requirements set forth by the SEC through the review and approval of this document by the Revolving Fund Disclosure Team. The State Revolving Fund disclosure policies and procedures document is available upon request.

BUDGETARY INFORMATION

The Fund has no spending limits and is not subject to any State General Fund appropriations or any other appropriations. Thus, the funds are immediately available upon receipt, allowing for timely and expeditious disbursement to the loan participants.

ECONOMIC FACTORS

While the financial strength of the Fund does face risk from the overall health of the United States and Kansas economies indirectly through the Program's borrowers, this risk is mitigated by several factors: 1) the Program is well capitalized and lightly leveraged at this point in time, 2) it is anticipated that the Program will receive additional capitalization grants from the Environmental Protection Agency (EPA), 3) the Program, through the loan agreements, has a relatively strong security position in the borrowers' financial resources, and 4) the Program's history of experiencing no borrower defaults through the prior two economic recessions.

REQUESTS FOR INFORMATION

This report is intended to provide financial information about the Kansas Water Pollution Control Revolving Fund to State of Kansas and United States Environmental Protection Agency officials, investors, and other interested parties and to discuss the activity and success of the Fund. For additional information, you may contact William Carr, Assistant Director, Bureau of Water, Kansas Department of Health and Environment at william.j.carr@ks.gov or Martin Eckhardt, Manager, Statewide Agency Audits and Municipal Services, Office of Accounts and Reports, Department of Administration at martin.eckhardt@ks.gov.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)

STATEMENTS OF NET POSITION

	As of June 30,	
	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,368,593	\$ 14,122,474
Restricted cash - loan reserve earnings	30,048	73,743
Investments	75,352,581	76,268,751
Investment interest receivable	26,179	54,071
Loans receivable	34,292,810	34,608,171
Loan interest receivable	2,457,294	2,822,684
Loan service fees receivable	339,577	309,381
Other receivables	12,212	12,561
Total current assets	132,879,294	128,271,836
Noncurrent assets:		
Restricted cash - arbitrage rebate	277,840	256,706
Restricted cash - state match	16,308	-
Loan reserve deposits - cash	3,639,135	3,639,135
Loan reserve deposits - investments	2,258,023	2,258,023
Loans receivable	325,907,571	358,739,238
Total noncurrent assets	332,098,877	364,893,102
Total Assets	464,978,171	493,164,938
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts on refunding	76,117	1,100,871
LIABILITIES		
Current liabilities:		
Loan reserve earnings	53,208	102,979
Bond interest	883,155	1,798,550
Revenue bonds, net	19,908,728	21,578,333
Other payables	155,758	87,995
Total current liabilities	21,000,849	23,567,857
Noncurrent liabilities:		
Loan reserve deposits	5,897,158	5,897,158
Arbitrage rebate	30,648	17,790
Revenue bonds, net	37,353,736	84,830,505
Total noncurrent liabilities	43,281,542	90,745,453
Total Liabilities	64,282,391	114,313,310
TOTAL NET POSITION	\$ 400,771,897	\$ 379,952,499

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Fiscal Years Ending June 30,	
	2020	2019
OPERATING REVENUES		
Loan interest	\$ 8,385,431	\$ 9,141,069
Loan service fees	1,023,572	981,306
Capitalization grants for program administration	365,616	432,507
Other revenues	39,583	51,335
Total operating revenues	9,814,202	10,606,217
OPERATING EXPENSES		
Program administration - capitalization grants	365,616	432,507
Program administration - loan service fees	392,250	381,822
Other expenses	1,034,165	619,907
Total operating expenses	1,792,031	1,434,236
Operating Income	8,022,171	9,171,981
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,030,258	2,250,511
Capitalization grants for loans	14,390,810	14,225,960
Loan principal forgiveness	(915,251)	(2,868,483)
Bond interest	(3,435,724)	(5,058,705)
Bond issuance costs	(290,546)	(37,931)
Arbitrage rebate	(12,858)	(17,790)
Other nonoperating revenues	1,030,538	1,038,253
Total nonoperating revenues	12,797,227	9,531,815
Change in net position	20,819,398	18,703,796
Net position, beginning of year	379,952,499	361,248,703
TOTAL NET POSITION, END OF YEAR	\$ 400,771,897	\$ 379,952,499

KANSAS WATER POLLUTION CONTROL REVOLVING FUND

(AN ENTERPRISE FUND OF THE STATE OF KANSAS)

STATEMENTS OF CASH FLOWS

	For the Fiscal Years Ending June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Loan interest received	\$ 8,750,821	\$ 9,078,432
Loan service fees received	993,376	963,273
Loan service fees paid for program administration	(385,154)	(373,548)
Capitalization grants received for program administration	365,964	433,384
Capitalization grants paid for program administration	(365,942)	(433,384)
Other expenses	(930,302)	(587,365)
Net cash provided by operating activities	<u>8,428,763</u>	<u>9,080,792</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Capitalization grants received for loans	14,390,810	14,225,960
Bond proceeds received, including premium	57,955,577	3,537,931
Bond issuance costs paid	(293,833)	(34,643)
Bond principal paid	(20,700,000)	(18,460,000)
Bond principal refunded	(84,305,000)	-
Bond interest paid	(5,423,315)	(6,054,952)
Other nonoperating revenues	1,030,538	1,038,253
Net cash used in noncapital financing activities	<u>(37,345,223)</u>	<u>(5,747,451)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan principal received	69,577,334	42,885,467
Loan disbursements paid	(37,345,557)	(54,118,644)
Investments matured	357,024,877	351,056,813
Investments purchased	(356,108,707)	(345,320,038)
Investment interest received	2,052,073	2,259,536
Loan reserve earnings received	167,211	214,937
Loan reserve earnings paid	(210,905)	(237,599)
Loan reserve deposits	-	(117,723)
Net cash provided by (used in) investing activities	<u>35,156,326</u>	<u>(3,377,251)</u>
Net increase (decrease) in cash and cash equivalents	6,239,866	(43,910)
Cash and cash equivalents, beginning of year	18,092,058	18,135,968
TOTAL CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 24,331,924</u>	<u>\$ 18,092,058</u>
Cash and cash equivalents consist of:		
Cash and cash equivalents	\$ 20,368,593	\$ 14,122,474
Restricted cash - arbitrage rebate	277,840	256,706
Restricted cash - loan reserve earnings	30,048	73,743
Restricted cash - state match	16,308	-
Loan reserve deposits - cash	3,639,135	3,639,135
	<u>\$ 24,331,924</u>	<u>\$ 18,092,058</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 8,022,171	\$ 9,171,981
Changes in operating assets and liabilities:		
Loan interest receivable	365,390	(62,637)
Loan service fees receivable	(30,196)	(18,033)
Other receivables	348	876
Other payables	71,050	(11,395)
Net cash provided by operating activities	<u>\$ 8,428,763</u>	<u>\$ 9,080,792</u>

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Description of Program – The Kansas Water Pollution Control Revolving Fund (the Fund) was established pursuant to Kansas Statutes Annotated (K.S.A.) 65-3321 *et seq.* in 1988 by the Kansas Legislature. The Fund was created to implement the State of Kansas’ (Kansas or the State) participation under the Federal Clean Water Act (the Federal Act) as amended by the Federal Water Quality Act of 1987. Under State law, the Secretary of the Kansas Department of Health and Environment (KDHE) administers the Water Pollution Control Revolving Loan Program (the Program). The Federal Act authorizes the Environmental Protection Agency (EPA) to award capitalization grants for deposit into state revolving funds in order to provide financial assistance for construction of publicly owned wastewater treatment facilities. The Program is the response by the State to federal law changes governing the development of publicly owned wastewater treatment works. The State Revolving Fund may be used to make loans, fund debt service reserves, and provide other types of financial assistance to public entities. Initial funding for the Program was provided from capitalization grants and proceeds of bonds, which provides state match funds. The state match funds must be equal to 20% of the capitalization grants, excluding the American Recovery and Reinvestment Act (ARRA) capitalization grant. The Fund is to be established, maintained, and credited with loan repayments and the Fund equity is to be available in perpetuity for providing such financial assistance.

Loans are made to municipalities from the Fund for eligible project costs as defined by federal and state law and regulations. These costs are primarily construction, planning and design engineering costs, and other costs related to a municipal construction project. Kansas Administrative Regulation 28-16-113 establishes the interest rates for the loans, which includes fees for servicing the loans, to be 60% of the preceding three months’ average of the Bond Buyers 20 Year General Obligation Bond Index. KDHE administers the aspects of the Program relating to selection of projects and the making of loans to eligible municipalities. The Department of Administration administers the accounting and reporting aspects of the Program relating to the receipt and disbursement of monies within the Fund, including disbursement of loans to municipalities, and billing and collecting of loan repayments. The Kansas Development Finance Authority (KDFFA) issues revenue bonds for the state match funds needed and for leveraged borrowing for the Fund. Monies in the Fund are deposited with the Treasurer of the State of Kansas (the Treasurer) and UMB (the Trustee).

Basis of Presentation and Accounting – The Fund is an enterprise fund of the State. The financial statements of the Fund have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of accounting refers to when revenues, expenses, and the related assets, deferred outflows of resources, liabilities, and deferred inflows of resources are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources are included on the statements of net position. The statements of revenues, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net total position. The statements of cash flows provide information about how the Fund meets the cash flow needs of its activities.

Cash and Cash Equivalents – Cash includes balances on deposit with the Treasurer and the Trustee. Cash equivalents are short-term, highly liquid investments held by the Trustee that are readily convertible to cash.

Investments – The Fund invests in repurchase agreements and investment agreements. The Fund also invests in state or municipal debt obligations, commercial paper, and money market funds. These investments are stated at their fair value or amortized cost.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

NOTES TO FINANCIAL STATEMENTS

Loans and Other Receivables – Receivables include interest earnings, current loan repayments due, and loan principal balances outstanding. All receivables are considered collectable; therefore, no allowance account has been established.

Loan Reserve Deposits – The loan reserve deposits have been established as required under certain provisions of certain loan agreements and consist of investments in investment agreements and cash. These investments are stated at cost as they are not negotiable or transferable and are not affected by market fluctuations. No trustee is required by the loan agreements. Such loan reserve deposits may only be used to prevent an event of default in the repayment of principal or interest on certain loans.

Bond Premiums and Discounts – The interest method is being used to calculate amortization of bond premiums and discounts.

Revenues – The Fund revenues consist of operating and nonoperating revenues. Operating revenues include: 1) interest earned on loans, 2) loan service fees, and 3) capitalization grant dollars earned for administrative costs. Nonoperating revenues include: 1) investment income on invested program monies, 2) capitalization grant dollars earned for loans, and 3) any other revenues not classified as operating revenues.

Expenses – The Fund expenses consist of operating and nonoperating expenses. Operating expenses include: 1) capitalization grant monies for administrative costs, 2) loan service fees for administrative costs and, 3) loan service fees for other costs. Nonoperating expenses include: 1) loan principal forgiveness which is generally recognized upon completion of the project but is occasionally recognized as project payments are disbursed, 2) revenue bond interest, 3) revenue bond premium amortization, 4) revenue bond issuance costs, and 5) revenue bond arbitrage rebate.

Net Position – Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Currently the Fund has no net investment in capital assets. Net position is reported as restricted when there are external limitations imposed on their use. All assets of the Program have been determined to be restricted assets in accordance with the conditions of the Clean Water State Revolving Fund EPA capitalization grants and bond covenants. Restricted net position includes capitalization grants restricted for loans to municipalities and for program administration expenses. The amount of capitalization grants restricted for program administration is being recognized as revenue when earned.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until then. The Fund only has one item that qualifies for reporting in this category. It is the deferred amounts on refunding reported in the statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the remaining life of the old bonds or the life of the new bonds.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Fund has no items that qualify for reporting in this category.

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

NOTES TO FINANCIAL STATEMENTS

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 1) the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and 2) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

Reclassification of Prior Year – Certain balances from the prior fiscal year have been reclassified to conform to the current year presentation.

2. INVESTMENTS AND LOAN RESERVE INVESTMENTS

The Fund’s investment policies are governed by Article VIII of the Master Financing Indenture. Allowable investments for the Fund cash balances held in the State Treasury and invested through the State Pooled Money Investment Board are as follows:

- Direct obligations of, or obligations that are insured as to principal and interest by, the U.S. Government or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Limited interest-bearing loans to various State agencies as specifically provided by law
- Certain Kansas agency and IMPACT Act projects and bonds
- High grade commercial paper

Specific Fund Investments – Monies held in the funds and accounts established under the Master Financing Indenture may be invested by the K DFA or by the Trustee to the fullest extent practicable in Investment Securities as defined in the Master Financing Indenture which include:

- Defeasance obligations
- Obligations of certain agencies not backed by the full faith and credit of the U.S. government
- Investments in money market funds
- Investment agreements
- Deposits fully insured by FDIC
- Commercial paper
- State or municipal debt obligations
- Investments in the Municipal Investment Pool Fund
- Repurchase agreements
- Guaranteed investment contracts

The Fund’s investments consisted of the following as of June 30:

Investment Type	2020			2019		
	Fair Value	Maturity		Fair Value	Maturity	
		Less Than 1 Year	1-5 Years		Less Than 1 Year	1-5 Years
Money Market Mutual Funds	\$ 12,097,532	\$ 12,097,532	\$ -	\$ 5,455,524	\$ 5,455,524	\$ -
Commercial Paper	75,352,581	75,352,581	-	76,268,751	76,268,751	-
Investment Agreements	2,258,023	-	2,258,023	2,258,023	-	2,258,023
	<u>\$ 89,708,136</u>	<u>\$ 87,450,113</u>	<u>\$ 2,258,023</u>	<u>\$ 83,982,298</u>	<u>\$ 81,724,275</u>	<u>\$ 2,258,023</u>

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2020 and 2019, the Fund had invested \$12,097,532 and \$5,455,524 respectively in Morgan Stanley Institutional Liquidity Funds (MSILF), money market mutual funds which comply with the Rule 2a-7 definition of a government money market fund. These funds are rated AAAM by Standard & Poor's and are valued at amortized cost. Based on the valuation method, additional disclosures are not required under GASB Statement No. 72.

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Fund has the following recurring fair value measurements as of June 30, 2020:

- Commercial paper of \$75.4 million is valued using quoted market prices (Level 2 inputs).
- Investment agreements of \$2.3 million are valued using quoted market prices (Level 1 inputs).

The Fund has the following recurring fair value measurements as of June 30, 2019:

- Commercial paper of \$76.3 million is valued using quoted market prices (Level 2 inputs).
- Investment agreements of \$2.3 million are valued using quoted market prices (Level 1 inputs).

Interest Rate Risk – For invested loan funds, the Fund generally invests to maximize the interest rate and sets a term of investment based on estimated expenditures which is generally less than three years. For loan reserve account investments, the Fund generally invests to maximize the interest rate and sets the term of the investments to the maturity of the corresponding loans.

Credit Risk –The Fund holds certain investments that may have credit risk since the underlying securities may include securities other than those that take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. government. The investments are unrated. Certain investments have an underlying collateral agreement.

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

NOTES TO FINANCIAL STATEMENTS

Concentration of Credit Risk – The Fund places no limit on the amount that may be invested with any one provider. The table below identifies the percent of total investments held by each provider as of June 30:

Investment Provider	2020		2019	
	Fair Value	Percent of Total	Fair Value	Percent of Total
Money Market Mutual Funds				
Morgan Stan Inst'l Liq Gov't - I 8302	\$ 12,097,532	13.49%	\$ 5,454,674	6.49%
MSILF Govt #8352	-	0.00%	850	0.00%
Commercial Paper				
Anglesea Fdg Plc & Ang	5,664,618	6.31%	2,770,266	3.30%
Banco De Credito E	3,006,142	3.35%	4,480,785	5.33%
Banco Del Estado De Chile	-	0.00%	5,176,939	6.16%
Banco Santander S.A.	4,955,093	5.52%	-	0.00%
Banque Et Caisse D Epargne	-	0.00%	4,231,542	5.04%
Bayerische Landesbank	4,473,581	4.99%	-	0.00%
Boeing CO	-	0.00%	4,473,225	5.33%
Cargill Inc	3,484,034	3.88%	-	0.00%
Chesham FNC/Chesh LLC	5,066,432	5.65%	-	0.00%
Columbia FDG Co LLC	8,488,764	9.46%	-	0.00%
Exxon Corporation	3,821,226	4.26%	-	0.00%
Glaxo Smithkline Fin Plc	866,021	0.97%	-	0.00%
GREAT BRIDGE CAPITAL CO	-	0.00%	4,430,538	5.28%
La Fayette Asset Securitization	-	0.00%	4,473,750	5.33%
Lloyds Bank Plc	-	0.00%	3,658,188	4.36%
MountCliff FDG LLC	4,493,140	5.01%	5,939,234	7.07%
MUFG Bank LTD/NY	-	0.00%	6,959,773	8.29%
Natixis	-	0.00%	3,361,456	4.00%
NORDEA BK ABP	-	0.00%	3,361,613	4.00%
Novartis Finance Corp	4,157,578	4.63%	-	0.00%
Pfizer Incorporated	2,975,515	3.32%	-	0.00%
Private Export Funding Corp	4,471,532	4.98%	-	0.00%
Standard Chartered Bank	-	0.00%	11,077,506	13.19%
Sumitomo Mitsui TR BK Singapor	4,473,955	4.99%	4,333,579	5.16%
Sumitomo Tr & BKG CO LTD	5,165,891	5.76%	-	0.00%
Toronto Dominion Bank	-	0.00%	4,182,195	4.98%
Toyota Motor Credit Co	9,789,059	10.91%	-	0.00%
White Plains Capital	-	0.00%	3,358,162	4.00%
Investment Agreements				
AIG	2,258,023	2.52%	2,258,023	2.69%
	\$ 89,708,136	100.00%	\$ 83,982,298	100.00%

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

NOTES TO FINANCIAL STATEMENTS

3. LOANS

The loans made by the Fund to the municipalities may include interest and service fees capitalized during project construction. All loans must begin repayments no later than one year after project completion and the repayment period is to be no longer than twenty years. Principal and interest payments are due semi-annually. Net interest rates on the loans outstanding at June 30, 2020 range from 1.47% to 3.33%. For loans effective on or after May 1, 2018, the net interest rate is 0.25% during the first four years of repayments. The net interest rate equals the gross rate minus 0.25% for the remaining years of repayments.

Estimated future maturities of the loans receivable and interest payments as of June 30, 2020 are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	\$ 34,292,810	\$ 7,640,221	\$ 41,933,031
2022	34,147,404	6,838,637	40,986,041
2023	36,146,428	5,981,709	42,128,137
2024	33,033,202	5,198,065	38,231,267
2025	28,212,672	4,598,731	32,811,403
2026 - 2030	117,822,599	14,493,016	132,315,615
2031 - 2035	63,734,996	4,144,752	67,879,748
2036 - 2040	12,810,270	359,466	13,169,736
	\$ 360,200,381	\$ 49,254,597	\$ 409,454,978

Certain loans are awarded principal forgiveness as required by the ARRA capitalization grant, and the 2010 through 2020 capitalization grants. Principal forgiveness awards consisted of the following as of June 30:

Grant	Awarded in Full	2020	2019	Cumulative	Number of Loans
ARRA	Yes	\$ -	\$ -	\$ 22,840,203	22
2010	Yes	-	51	9,181,294	20
2011	Yes	-	38,156	4,116,837	7
2012	Yes	-	12,890	1,063,482	4
2013	Yes	-	-	851,480	1
2014	Yes	-	351,692	1,033,065	2
2015	Yes	-	26,842	3,777,300	3
2016	No	107,499	2,462,889	2,698,398	4
2017	No	451,752	(24,037)	1,389,096	4
2018	No	356,000	-	356,000	1
2019	No	-	-	-	0
2020	No	-	-	-	0
		\$ 915,251	\$ 2,868,483	\$ 47,307,155	68*

* Individual loans may have been awarded principal forgiveness from multiple grants.

The change made to the 2017 capitalization grant principal forgiveness amount in FY 2019 was due to allocation adjustments made to remain within EPA requirements.

Each of the municipalities has established a dedicated source of revenue for repayment of the loans. The dedicated sources of revenue are either an obligation of system revenues and ad valorem property taxes levied or, if not so pledged, a secured lien on the revenues of the water treatment system which is secured by a policy of municipal bond insurance or comparable security.

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

NOTES TO FINANCIAL STATEMENTS

Loans to Major Loan Participants – The Fund has made loans to the following major loan participants. The aggregate outstanding loan balances for each of these participants exceeds five percent of total loans receivable. The combined outstanding loan balances for major loan participants consisted of the following as of June 30:

Participant	2020		2019	
	Outstanding Principal Balance	Percent of Total Loans Receivable	Outstanding Principal Balance	Percent of Total Loans Receivable
City of Emporia	\$ 26,808,157	7.44%	\$ 26,669,463	6.78%
City of Hays	27,466,003	7.63%	28,714,928	7.30%
City of Manhattan	26,918,216	7.47%	27,167,910	6.91%
City of Topeka	18,203,203	5.05%	22,407,277	5.70%

4. LOAN RESERVE DEPOSITS

Loan reserve deposits for the City of Topeka, the City of Kansas City, Strother Field, and the Metropolitan Topeka Airport Authority total \$5,897,158 as of June 30, 2020 and 2019. The loan reserves include balances on deposit with the State Treasurer totaling \$3,639,135 and investments totaling \$2,258,023. Investments as of June 30, 2020 are investment agreements with interest rates of 5.30%, maturing on June 1, 2022 and November 25, 2023.

5. BONDS PAYABLE

Outstanding revenue bonds consisted of the following as of June 30:

	2020	2019
Series 2010SRF-1	\$ -	\$ 41,080,000
Series 2010SRF-2	-	60,520,000
Series 2019SRF	-	3,405,000
Series 2020SRF	51,280,000	-
Total bonds payable	51,280,000	105,005,000
Current maturities	(18,015,000)	(20,700,000)
Unamortized net original issue premium	5,982,464	1,403,838
Current unamortized net original issue premium	(1,893,728)	(878,333)
Long-term revenue bonds payable, net	\$ 37,353,736	\$ 84,830,505

Revenue bond activity consisted of the following as of June 30:

	2020	2019
Beginning Balance	\$ 105,005,000	\$ 120,060,000
Additions	51,280,000	3,405,000
Reductions	(105,005,000)	(18,460,000)
Ending Balance	51,280,000	105,005,000
Due Within One Year	(18,015,000)	(20,700,000)
Long-Term Liability	\$ 33,265,000	\$ 84,305,000

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

NOTES TO FINANCIAL STATEMENTS

On December 15, 2010, the Series 2010SRF Revenue Bonds were issued in the original amount of \$213,950,000 for the Public Water Supply (PWS) and Water Pollution Control (WPC) Programs. The bonds consisted of Series 2010SRF-1 for both the PWS and WPC programs, and Series 2010SRF-2 and Series 2010SRF-3 for the WPC program. The Series 2010SRF-3 bonds matured on March 1, 2014.

The WPC portion of the Series 2010SRF-1 bonds was issued in the original amount of \$83,530,000 and consisted of tax-exempt serial bonds totaling \$0 and \$41,080,000 as of June 30, 2020 and 2019 respectively. The bonds were due in annual principal payments ranging from \$1,670,000 to \$20,020,000 with the final payment due on March 1, 2022. The interest rate on the bonds was 5.00% and paid semi-annually beginning September 1, 2011.

The Series 2010SRF-2 bonds were taxable Build America Bonds. The bonds were issued in the original amount of \$60,520,000 for the WPC Program and consisted of serial and term bonds totaling \$0 and \$60,520,000 as of June 30, 2020 and 2019 respectively. The serial bonds totaling \$37,850,000 were due in annual principal payments ranging from \$4,475,000 to \$12,035,000 with the final payment due on March 1, 2025. The interest rate on the bonds ranged from 4.52% to 5.17% and was paid semi-annually beginning September 1, 2011. The term bonds totaling \$22,670,000 were due in annual principal payments ranging from \$3,875,000 to \$5,645,000 with the final payment due on March 1, 2030. The interest rate on the bonds was 5.945% and paid semi-annually beginning September 1, 2011.

The Series 2010SRF-1 and Series 2010SRF-2 bonds maturing on March 1, 2021 and thereafter were called for redemption and payment in whole on March 1, 2020 at the redemption price of 100% (expressed as a percentage of the principal amount). The Series 2010SRF bonds were refunded using proceeds from the Series 2020SRF bonds totaling \$54,151,914 and loan prepayments totaling \$30,153,086. This refunding was undertaken to reduce the total debt service payments, including interest, over the life of the debt by \$40,374,790. The refunding resulted in an economic gain (difference between the present value of the debt service payments of the refunded bonds and the refunding bonds) of \$8,457,284.

On February 28, 2019, the Series 2019SRF Revenue Bonds were issued in the original amount of \$47,445,000 for the Public Water Supply (PWS) and Water Pollution Control (WPC) programs. The WPC portion of the bonds was issued in the original amount of \$3,405,000 and consisted of tax-exempt serial bonds. The interest rate on the bonds was 5.00%. The bonds matured on May 1, 2020, with principal paid at maturity and interest paid semi-annually beginning November 1, 2019. The proceeds, along with premium received on the bonds, provided \$3,500,000 of state match loan funds for the Program and an amount required to pay costs of issuance. The WPC portion of the Series 2019SRF Revenue Bonds was not subject to redemption prior to its stated maturity.

On February 27, 2020, the Series 2020SRF Revenue Bonds were issued in the original amount of \$68,730,000 for the Public Water Supply (PWS) and Water Pollution Control (WPC) programs. The WPC portion of the bonds was issued in the original amount of \$51,280,000 and consists of tax-exempt serial bonds totaling \$51,280,000 as of June 30, 2020. The bonds are due in annual principal payments ranging from \$970,000 to \$18,015,000 with the final payment due on May 1, 2030. The interest rate on the bonds is 5.00% and paid semi-annually beginning November 1, 2020. The proceeds, along with premium received on the bonds, provided \$3,500,000 of state match loan funds for the Program, \$54,151,914 of leveraging funds to refund the Series 2010SRF bonds, and an amount required to pay costs of issuance. The Series 2020SRF Revenue Bonds are not subject to redemption prior to their stated maturity dates.

The Master Financing Indenture provides for the establishment of funds in the custody of the trustee in the name of the K DFA. At June 30, 2020 and 2019, management believes the Fund was not in default of significant provisions of the Master Financing Indenture or the Supplemental Indentures.

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

NOTES TO FINANCIAL STATEMENTS

Aggregate revenue bond debt service requirements to maturity as of June 30, 2020 are as follows:

Year Ending June 30,	Principal Amount Due	Interest Amount Due	Total
2021	\$ 18,015,000	\$ 3,019,822	\$ 21,034,822
2022	7,360,000	1,663,250	9,023,250
2023	8,050,000	1,295,250	9,345,250
2024	9,150,000	892,750	10,042,750
2025	1,645,000	435,250	2,080,250
2026 - 2030	7,060,000	1,217,750	8,277,750
	\$ 51,280,000	\$ 8,524,072	\$ 59,804,072

The debt service payment in FY 2020 was \$20,700,000 for principal and \$5,423,315 for interest. The Fund has cumulative principal payments totaling \$439,835,845 and cumulative interest payments totaling \$331,128,086.

6. ARBITRAGE REBATE

In accordance with Internal Revenue Code Section 148(f) relating to arbitrage restrictions on tax-exempt bonds, there is currently no rebate liability for the Series 2010SRF bonds as of June 30, 2020 and 2019. There is a rebate liability of \$0 and \$17,790 for the Series 2019SRF bonds as of June 30, 2020 and 2019 respectively. There is a rebate liability of \$30,648 for the Series 2020SRF bonds as of June 30, 2020.

As of June 30, 2020 and 2019, the Fund had a restricted cash balance of \$277,840 and \$256,706 respectively for future arbitrage liabilities.

7. YIELD ON BOND-FINANCED LOANS

Bond-financed loans are purpose investments and qualify as “program investments” within the meaning of Regulations § 1.148-1(b). If the yield on bond-financed loans exceeds the bond yield by 1.5%, the bonds may become arbitrage bonds. The yield on the Series 2020SRF bonds is 0.95942%. Therefore, the yield on loans financed from the Series 2020SRF bonds, including loans financed from bonds refunded by the Series 2020SRF bonds, may not exceed 2.45942% (allowable yield).

The estimated yield on the bond-financed loans is calculated using the expected loan repayment cash flows over the life of the bonds. As of the issuance date of the Series 2020SRF bonds, the estimated yield on the bond-financed loans was 2.71045%, resulting in an estimated excess yield amount of \$1,570,360. Of this amount, \$863,365 is attributable to PWS loans and \$706,995 is attributable to WPC loans. Since the issuance date of the Series 2020SRF bonds, five loan prepayments have been received that affect this calculation.

Loan prepayments are generally expected to decrease the yield on the bond-financed loans. However, some factors may cause a prepayment to increase the yield on the bond-financed loans, such as a prepayment being made on a loan with a lower interest rate than the allowable yield. The estimated yield on the bond-financed loans will be recalculated annually to monitor the effect of loan prepayments.

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2020, the realized yield on the loans allocable to the Series 2020SRF bonds does not yet exceed the allowable yield. Therefore, as of June 30, 2020, there is no current excess yield amount allocable to the Series 2020SRF bonds that would require the Program to make credits to participants. The yield on the bond-financed loans is expected to exceed the allowable yield in the future and this will require the Program to make credits to participants in the future. The exact amount of any excess will be determined based on the Program's realized loan yield which will be influenced, perhaps substantially, by participant loan prepayments that the Program has historically experienced.

8. FEDERAL CAPITALIZATION GRANTS

Ninety-six percent of the total capitalization grants awarded by EPA are to be loaned out to municipalities. Up to four percent of the total capitalization grants may be spent on program administration. Capitalization grants awarded by EPA as of June 30 are as follows:

	2020	2019
Prior Federal Capitalization Grant Awards	\$ 396,851,647	\$ 382,363,647
Less Draws for Loans	(384,527,829)	(370,301,869)
Less Draws for Program Administration	(11,200,181)	(10,766,797)
Available for Fiscal Year	1,123,637	1,294,981
2018 Federal Capitalization Grant Award	-	14,488,000
2019 Federal Capitalization Grant Award	14,342,000	-
2020 Federal Capitalization Grant Award	14,344,000	-
Less Draws for Loans	(14,390,810)	(14,225,960)
Less Draws for Program Administration	(365,964)	(433,384)
Available to Draw	\$ 15,052,863	\$ 1,123,637

As of June 30, 2020 and 2019, \$15,052,863 and \$1,123,637 respectively of the capitalization grants had not been drawn down. At fiscal year-end, grant revenue and the corresponding grant expense are recorded for administration costs incurred that will be paid with grant funds. As of June 30, 2020 and 2019, \$12,211 and \$12,559 respectively of grant revenue had been recorded as accruals but had not been drawn down from the grant.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Lee A. Norman, M.D.
Secretary of the Kansas Department
Of Health and Environment
Topeka, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Kansas Water Pollution Control Revolving Loan Fund (the Fund), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Secretary of the Kansas Department of Health and Environment
State of Kansas Water Pollution Control Revolving Loan Fund

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 22, 2020

Clean Water State Revolving Fund
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, DC 20460



Innovative Funding for Agricultural Best Management Practices

COVER CROP INTERSEEDING

FOR CLEAN WATER IN NORTHEAST KANSAS

A pilot project of the Environmental Protection Agency's Clean Water State Revolving Fund
January 15, 2020



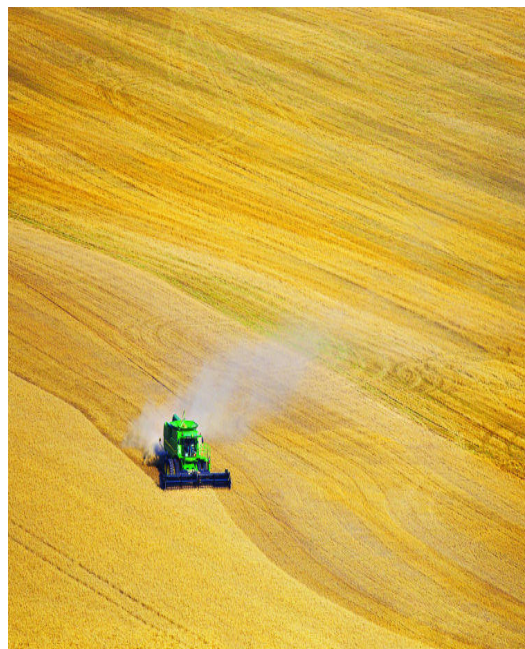
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Introduction

The nexus between agricultural operations in the United States and water quality grows ever more critical as large swaths of the country face challenges from drought and flooding, while downstream neighbors grapple with algal blooms and hypoxic waters impacted by increased levels of nitrogen and phosphorus.

There is an inherent interconnect between the agricultural industry, local economies, and environmental and public health that require investments in innovative, alternative approaches to address these challenges. The Clean Water State Revolving Fund (CWSRF) and §319 Grants programs can be tapped for much needed funding to apply a vast array of project types, including agricultural best management practices (BMPs) such as cover crop interseeding. When widely adopted, this approach can protect water quality by improving the integrity of the soil profile over time, conserving water resources with less irrigation, and reducing the volume of fertilizer application to crops.



The use of cover crops is a time-tested strategy used by agricultural producers to perform multiple functions simultaneously: prevent soil erosion, reduce surface runoff, increase soil fertility and organic matter, promote nitrogen fixation, and provide carbon sequestration and habitat for pollinators. Using more advanced application techniques beyond drilling include high-clearance interseeding between rows of standing cash crops, which increases efficiency and reduces operational costs for farmers in the long run. All these outcomes are a boon to improving water quality and the economic prosperity of agricultural operations. This approach is encouraged as a practice to help states implement their nutrient management plans, and with the help of financial support from programs like the CWSRF and the §319 Grants Program, finding a receptive audience among risk-averse farmers.

In 2019, the Kansas Department of Health and Environment (KDHE) forged a partnership between its CWSRF, the Bureau of Watershed Management, Glacial Hills Resource Conservation and Development, and the City of Wetmore to establish a new CWSRF Interseeder Program in northeast Kansas. This effort was funded by the EPA's Nonpoint Source Management Program in the Office of Wetlands, Oceans and Watersheds, and this report follows the journey of the Kansas CWSRF Interseeder Program and its genesis. It also provides numerous examples from across the country of successful agricultural equipment leasing programs that have either received seed money to establish such programs through the State Clean Water State Revolving Fund (CWSRF), the Nonpoint Source §319 Grant Program, or financial assistance provided by a state agency. The collection of options curated in this report explore best practices for establishing a similar program to promote conservation farming practices using cover crops in Nemaha County, Kansas.

The states represented in this report are operating under legislative mandates to reduce nutrient loading of surface waters, such as the Kansas Surface Water Nutrient Reduction Plan. The strategic plans that each of these states have crafted bear a specific focus on agricultural practices and seek to incentivize local farmers and producers to adopt many forms of conservation farming to improve the integrity of the soil, reduce erosion and runoff, and support strong partnerships within watersheds. These plans can be instrumental in carving out pathways for a new program to promote adaptive management practices through targeted education and outreach, as well as establishing methods for tracking progress and measuring benefits.

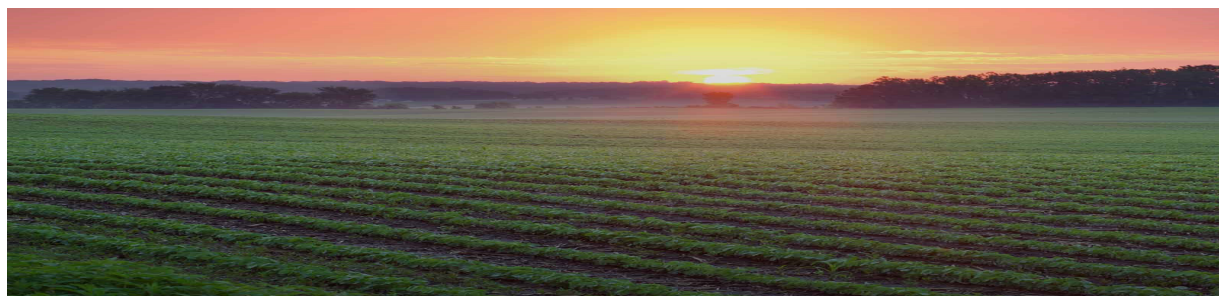
“ The use of cover crops is a time-tested strategy used by agricultural producers to perform multiple functions simultaneously.

The Kansas Nonpoint Source Pilot Project

How it all began . . .

The heartland faces many challenges to keep American farms productive and thriving: drought, floods, diminished soil quality, and the balance between protecting water quality and safeguarding crop yields. To do so requires the adoption and implementation of agricultural BMPs that improve overall soil health and help to suppress nutrient mobility. The BMPs available to farmers are broad and typically specific to either livestock operations or crop production. For Kansas, the best options involve approaches like conservation tillage, cover crops, and direct-seed applications to help restore soil productivity, reduce runoff, and conserve valuable water resources. But the equipment needed for such approaches can be quite expensive, often precluding many small farming operations from adopting these practices.

As the saying goes, “necessity is the mother of invention,” which is how the Kansas CWSRF Interseeder Program was born. KDHE’s Bureau of Watershed Management wanted to promote agricultural BMPs to support the state’s Surface Water Nutrient Reduction Plan, among them being the use of cover crops using high-clearance interseeding equipment, otherwise known as “high boy” interseeders. Glacial Hills Resource Conservation and Development Region, Inc.

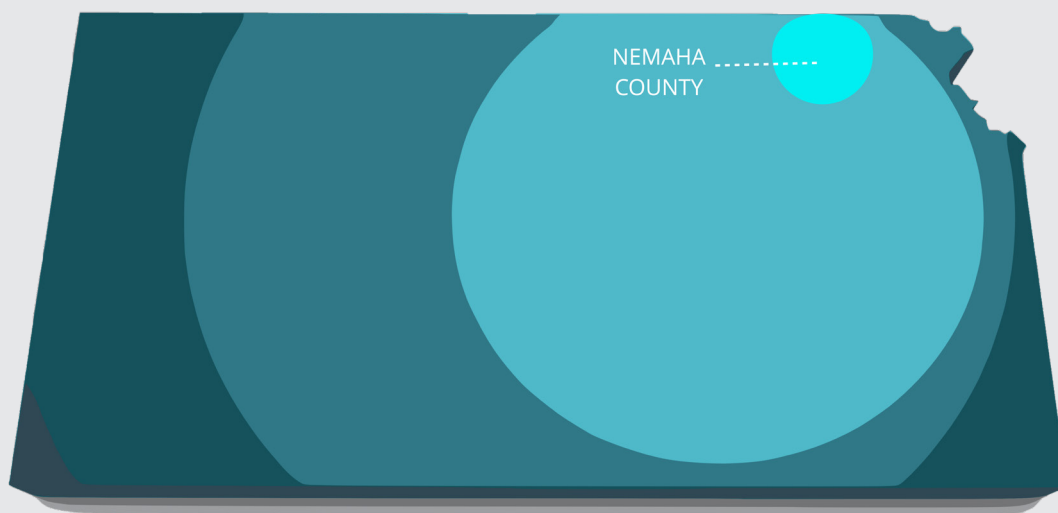


(“Glacial Hills”), a non-profit organization located in Nemaha County in Northeast Kansas was interested in establishing an equipment leasing program for cover crop interseeding to help promote the practice by allowing farmers to try it out before making large financial investments in purchases of such equipment. This mutual interest brought KDHE and Glacial Hills together where they collaborated how to go about putting such a program together, what it would cost, what level of effort would be required, and what critical partnerships needed to be developed.

Finding the funding for such an enterprise could be challenging as Hagie high-clearance interseeder equipment doesn't come cheap and 319-grant funding likely would not be capable of covering all these costs alone. This brought the Kansas CWSRF into the picture with ample available funding that could be applied toward agricultural projects that provide water quality benefits. Furthermore, the project could be advantageous for the CWSRF's ability to meet its Green Project Reserve (GPR) requirement, a federal mandate for the program to commit at least 10 percent of its federal appropriation to projects that promote green infrastructure, water conservation, water efficiency, or environmentally innovative activities. The project scope of the CWSRF Interseeder Program satisfied the eligibility criteria by implementing agricultural practices that promote water efficiency and conservation, reduce nutrient and sediment runoff, and improve water quality. This project would allow the Kansas CWSRF to meet its GPR goal for not just one year, but for 2017, 2018 and a portion of the 2019 requirement.

Overview

Glacial Hills has long been a partner in sponsoring nonpoint source 319 watershed projects in Nemaha County. Through the CWSRF Interseeder Program, Glacial Hills will be able to work directly with local agricultural service providers (ASPs) to purchase, deploy, and operate five Hagie high-clearance cover crop seeding machines to benefit water quality in the Delaware River and Tuttle Creek Lake watersheds.



Map of Kansas showing Nemaha County in the northeast corner

Local ASPs that Glacial Hills is Engaging



Ag Partners Co-Op

<https://www.agpartnerscoop.com>



Farmers Cooperative

<https://www.farmersco-operative.com>



Jackson Farmers Inc

<https://jacksonfarmers.com>



Central Valley Ag

<https://www.cvacoop.com>

The ASPs will work directly with agricultural producers to provide the custom cover crop interseeding service. Because the CWSRF loan will pay for the purchase of the Hagie high-clearance interseeder equipment, ASPs will be able to charge much less per acre to provide these services, thus mitigating risk for farmers interested in trying cover crops for the first time while allowing them to realize the benefits of this practice first-hand. This practice will also increase local economies of scale, making use of this equipment more affordable and accessible to more Kansas farmers.

The long-term benefit to farmers will be demonstrated as use of cover crops begins to reduce crop input costs such as fertilizer and pesticides. Therefore, even when the project ends, agricultural producers are likely to continue to use cover crops as a practice as a result of these economic benefits. The ASPs will benefit by developing a new line of business that extends much beyond the useful life of the seeding equipment. Once the customer base has been established, ASPs will be able to purchase their own interseeding equipment in the future and charge a higher rate. Farmers will still be able to participate using the economic returns they receive as a result of reduced crop input costs.

The project also leverages itself as the equipment continues to retain value after the initial project period. Used interseeding equipment can be sold to the ASPs who were involved in the project, or it can be sold on the open market where used farming equipment is a highly sought-after commodity. The sales proceeds from this equipment will be used to support another round of new seeding equipment purchases and opportunities to engage new partners. In this way, the project will continue to support two additional rounds of equipment purchases and partnership development with each round becoming progressively smaller. The end goal of the project is to reach a stasis of county-wide adoption of cover crop interseeding practices and equipment ownership.



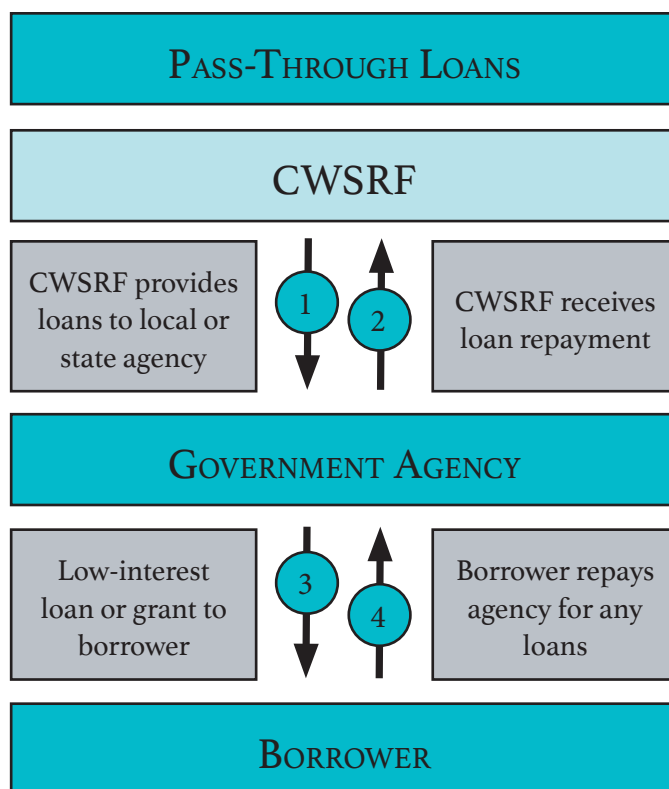
Photo of Hagie interseeder field demonstration

Loan Structuring

The Kansas CWSRF cannot make a loan directly to Glacial Hills due to a regulatory restriction that requires all loans to nonpoint source projects be made to an entity with taxing authority. This CWSRF eligibility challenge would require the use of an alternative financing mechanism to overcome this obstacle. KDHE elected to use a pass-through lending model, one of the most efficient and effective alternative lending mechanisms available to SRF programs. This resulted in the development of a functioning public-private partnership between KDHE, Glacial Hills, and the City of Wetmore.

For pass-through loans, a CWSRF program makes a loan to another public entity, such as the City of Wetmore, that then provides funding to private borrowers for projects. The City acts as an intermediary by providing loans or grants to eligible projects (e.g., nonpoint source projects, including agricultural BMPs). The City still repays the CWSRF loan to the State. Figure 2.0 below illustrates the basic mechanics of how pass-through loans work.

Figure 2.0



For the Kansas CWSRF Interseeder Program, the loan will be made between the City of Wetmore and KDHE for \$3.5 million with 100% loan forgiveness and a one-year term. The City agreed to participate as a conduit lender knowing that the project will have a positive impact on their municipal water supply, which is fed by a targeted stream corridor in the Delaware River watershed. Since the entire principal amount of the loan will be forgiven, Glacial Hills will reimburse the City for 30-days of interest charges accrued. The City will submit all requests for CWSRF funding disbursements to KDHE for all eligible expenses incurred by Glacial Hills, maintain accounting records, and submit a final report to KDHE upon completion of the project. **Glacial Hills will do the following:**

Glacial Hills Responsibilities

Serve as a subcontractor to the City for administration and performance of the project

Complete and submit all forms and documents required for the CWSRF application to KDHE

Oversee the bidding process for the purchase of equipment and complete all bid documents for use by the City

Glacial Hills will work with ASPs in the area to purchase, deploy, and operate the cover crop seeding equipment.



Photo of a demonstration meeting

Oversee and complete the scope of work and reporting requirements set forth in the loan agreement between KDHE and the City

Reimburse the City for any legal costs incurred during the project

Reimburse the City for all interest costs incurred under the CWSRF loan agreement with KDHE

Marketing and Outreach Campaign

Over the last five years, KDHE has focused on practices that improve soil health for agricultural BMP implementation. The state has seen watershed groups provide more than \$100,000 in cost-share to agricultural producers in targeted sub-watersheds for seed and planting of cover crops. State programs like the Kansas Reservoir Protection Initiative and federal programs such as NRCS-EQIP have provided millions of dollars in funding for producers to implement cover crops in these watersheds. Numerous workshops and field days are conducted throughout the state each year to promote the utilization of cover crops and KDHE prepares flyers, notices, and marketing materials to spread the word about upcoming events (Appendix A). Participation by agricultural producers has been good with 120 in attendance at the winter 2019 workshop event at the Nemaha County Community Building in Seneca, Kansas, and 40 in attendance at a subsequent summer field day event held in June in Axtell, Kansas.



Interseeded cover crops three weeks after planting. Picture taken September 6, 2019.

Marketing and Outreach Continued

The Tuttle Creek Cover Crop Field Demonstration was held in August at the Buessing Farm near Axtell, Kansas, to showcase the effectiveness of the Hagie Interseeder equipment. Maurice Buessing, an experienced and dedicated cover crop farmer, led a presentation and interactive Q&A session for 40 producers to share his personal experience in using cover crops, best practices for termination, and methods for planting fall crops. In addition, a live interseeding demonstration (in which over 800 acres were planted) took place near Axtell on August 13-15, 2019. The field demonstration also included information on the best seed mix to use, the appropriate ratios required for the mixture, and recommended application rates per acre, as shown in Figure 3.

Figure 3: Custom Seed Mix and Application Rates

Kansas CWSRF Interseeder Program Field Demonstration Custom Cover Crop Seed Mix and Application Rates (54 pounds per acre)							
Species	lb./acre	% by wt	Origin	Germ	Purity	Seeds/lb.	Seeds/ac
Balansa Clover: Fixation	2	2.00%	OR	85%	53.03%	500,000	1,000,000
Crimson Clover: Dixie	1	1.80%	OR	89%	99.85%	107,200	107,200
Cereal Rye: Elbon	38	70.00%	KS	90%	99.46%	23,000	874,000
Annual Rye Grass: Winterhawk	9	16.30%	OR	90%	98.00%	190,000	1,710,000
Daikon Radish: Nitro	3	5.50%	OR	95%	99.20%	25,000	75,000
Rapeseed: Trophy	1	1.80%	ID	96%	99.60%	175,000	175,000

KDHE continues to follow up with the producers involved in the demonstration to document their thoughts, but the initial feedback has been overwhelmingly positive. Many additional producers in the watersheds have inquired about the availability of these machines in the future. A local agricultural retailer who provided logistical support during the demonstration event also expressed interest in providing interseeding services to their growers.

Using a market-based approach to effectively increase the adoption of soil health principles using cover crops requires the right partnerships. KDHE has developed relationships with agricultural retailers who will undertake much of the marketing and outreach efforts, including development of brochures and fliers, and coordination and facilitation of informational meetings to sell interseeding services. KDHE expects to launch a parallel educational component for producers using the service as well as retail staff providing the service. This is being funded by a separate grant provided by an educational consortium that teaches soil health principles. Due to the strong history of cover crop adoption, the availability of incentive programs, continued outreach and education efforts, and a successful demonstration project, Kansas has every reason to believe that continuing this CWSRF program over the long term will be successful.

Anticipated Project Benefits

The CWSRF Interseeder Program for Clean Water in Northeast Kansas offers important environmental benefits that allow this project to fulfill the Kansas CWSRF program's GPR requirement and helps to implement the Kansas Nonpoint Source Management Plan by using cover crop interseeding to prevent or remediate nonpoint sources of pollution within the Tuttle Creek and Delaware River priority watersheds.

These activities included in the project will support the Kansas/EPA-approved 9-Element Watershed Plans which contain precise water quality monitoring components including monitoring locations, duration, frequency, and milestones for reaching long-term water quality goals and TMDL de-listings over time. These plans will be used to estimate and later quantify the water quality benefits realized by adopting the cover crop interseeding practices offered through the new program.

The \$3.5 million CWSRF loan will allow the program to purchase seven Hagie Interseeders, with each machine contractually required to plant at least 10,000 acres of cover crop each year in the Tuttle Creek and Delaware River watersheds. Acreage to be planted is expected to be split evenly between the two watersheds, thus resulting in significant reductions of nitrogen, phosphorus, and sediment loadings to surface waters in each respective watershed as shown in Figure 4. The program will be incubated in the northeast region of the state with plans for further statewide expansion in the future as demand for this assistance grows.

Figure 4: Anticipated Water Quality Benefits

The seven interseeders are contractually required to plant at least 10,000 acres of cover crop each year.

Annual load reductions for 70,000 acres of cover crop are:

136,639 pounds of Nitrogen

68,319 pounds of Nitrogen

34,201 pounds of Phosphorus

23,383 tons of Sediment

Planted acres will be evenly split between Tuttle Creek Watershed and Delaware River Watershed. Each watershed will reduce:

Using **Green Infrastructure** to Improve Soil Health and Water Quality

Healthy soil profiles are integral to surface water quality. Unfortunately, over the course of many years of conventional farming practices, the quality of the nation's agricultural soils has become severely degraded. Healthy soils are measured by the percentage of organic matter they contain. Over time, heavily tilled soils in Kansas have lost 75% or more of their organic matter by volume; 7-8% in intact soils has been reduced to only 1-2% after being tilled for many years. This loss of organic matter greatly diminishes a soil's ability to properly cycle nitrogen, promote growth of beneficial bacteria, and immobilize ammonia and nitrates¹. Damaged soil structure cannot adequately infiltrate and store precious water, and proper plant growth must be supplemented by fertilizers and irrigation. This, in turn, creates challenges for managing increased nutrient runoff and protecting water quality.

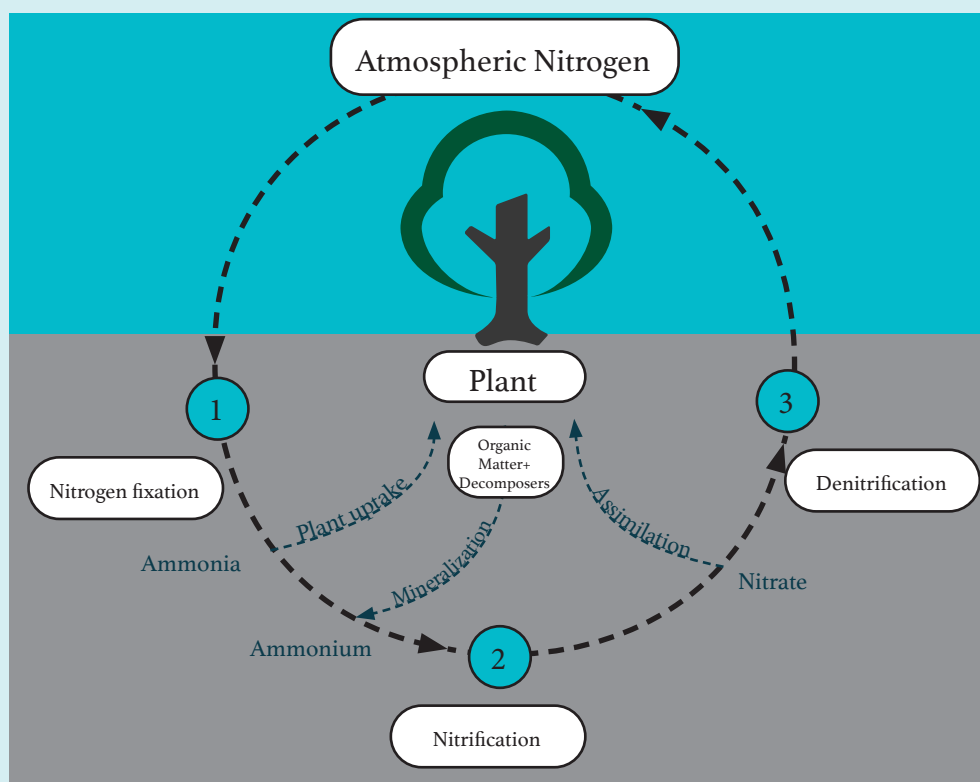
The CWSRF Interseeder Program provides the necessary equipment and education for implementing healthy soil practices through a market-based approach that has the potential to restore degraded agricultural soils. Runoff from storm events will be slowed, thus reducing erosion while maintaining a healthy aquatic habitat as shown in Figure 5.



Interseeded cover crops seven weeks after planting. Picture taken October 2, 2019.

Figure 5: Healthy Soil from Cover Crops

Cover Crops Build Healthy Soils



Cover crops scavenge **nitrogen** from the soil and prevent leaching

A **1% increase in organic matter** & healthy soil can infiltrate and store **25,000 gallons of water per acre**

Increased Water Efficiency

Over time, the use of cover crops increases the soil's ability to infiltrate and retain water by decreasing the amount of irrigation required. Cover crops also reduce the soil temperature at the surface, which creates a micro-climate that is more conducive to plant growth. Restoration of a healthy soil profile via cover crops will allow much more of any irrigation water to be used for plant growth rather than becoming lost to runoff or evaporation. This provides an important nexus to mitigating the long-term effects of climate change because cover crops help to restore the water cycle which governs 95% of the greenhouse effect on earth. Furthermore, cover crops can provide effective carbon sequestration within the soil by increasing the amount of organic matter it contains².

Under the Interseeder Program agreement, agricultural retailers are required to provide application area maps for each field that has been seeded with each of the five machines. They must also provide the following information to KDHE:

- Number of acres planted
- Producer name
- Producer contact information
- Total acres per producer implementing cover crops

This information will help KDHE build a database to identify spatial gaps in cover crop implementation, thus increasing the CWSRF Interseeder Program's ability to specifically target those areas, if needed, in the future.

Leading by Example: State Approaches to Funding Cover Crop Interseeding

The efforts undertaken by the Kansas pilot project are part of a growing number of similar programs for the adoption and implementation of cover crop BMPs across the nation. This chapter illustrates how other states are successfully implementing cover crop interseeding programs – funded both inside and outside of the CWSRF – that provide a cache of useful examples, practices, and lessons learned to help any state successfully establish similar agricultural BMP funding programs. The examples presented here may be used to help stand up new cover crop interseeding programs elsewhere.



Photo of Tuttle Creek field demo

Appendix A: Kansas CWSRF Interseeder Program Marketing & Outreach

Appendix A



Improve Soil Health & Reduce Streambank Erosion *Ensuring future agricultural productivity through land management practices that provide multiple benefits*

Learn about practical cost-effective ways to:

- ✓ Improve soil health
- ✓ Reduce runoff
- ✓ Control erosion
- ✓ Increase future profitability
- ✓ Better manage streambank erosion problems
- ✓ Enhance wildlife habitats
- ✓ Manage forest and rangeland resources

Date:

January 15, 2019
(Inclement weather date
January 17)

Time:

8:15 am – 3:00 pm
(Lunch provided for
registrations received by
January 10th)

Location:

Nemaha County
Community Building
[1500 Community Drive,](#)
[Seneca, KS, 66538](#)

Registration:

<https://wraps.eventbrite.com>

Featured Speaker: Gail Fuller - Soil Health, Cover Crops, Livestock Management, Holistic Farming



Gail Fuller has been experimenting with no-till farming since the mid-1980's and has been 100% no-till since 1995 on his farm near Emporia, KS. Over the years, regenerating soil health has become his focus using nature's principles, such as biodiversity, to grow healthy soils and healthy food.

He uses annual cover crops, perennial cover crops, and companion crops. His livestock operation is similarly diverse with cattle, sheep, pigs, and chickens grazing the covers in an intensive rotational or "mob" grazing fashion.



Featured Speaker: Philip Balch - Reducing Streambank Erosion, Stabilization Techniques, Riparian Buffers



Philip Balch is a Stream Specialist and principal of Wildhorse Riverworks, Inc. in Topeka, KS. For over 30 years, Phil has been working on projects to reduce streambank erosion and restore degraded stream conditions through the application of hydrologic and ecologically based principles. During his career, he has worked on numerous projects involving small streams as well as major river systems in Kansas and around the country.

