



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

**For State Fiscal Year 2022
July 1, 2021-June 30, 2022**

By Shelly McMurry

For the

Water Quality Program

Washington State Department of Ecology
Olympia, Washington

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- State Fiscal Year 2022 Final Water Quality Funding Offer List and Intended Use Plan, Publication [21-10-025](#)

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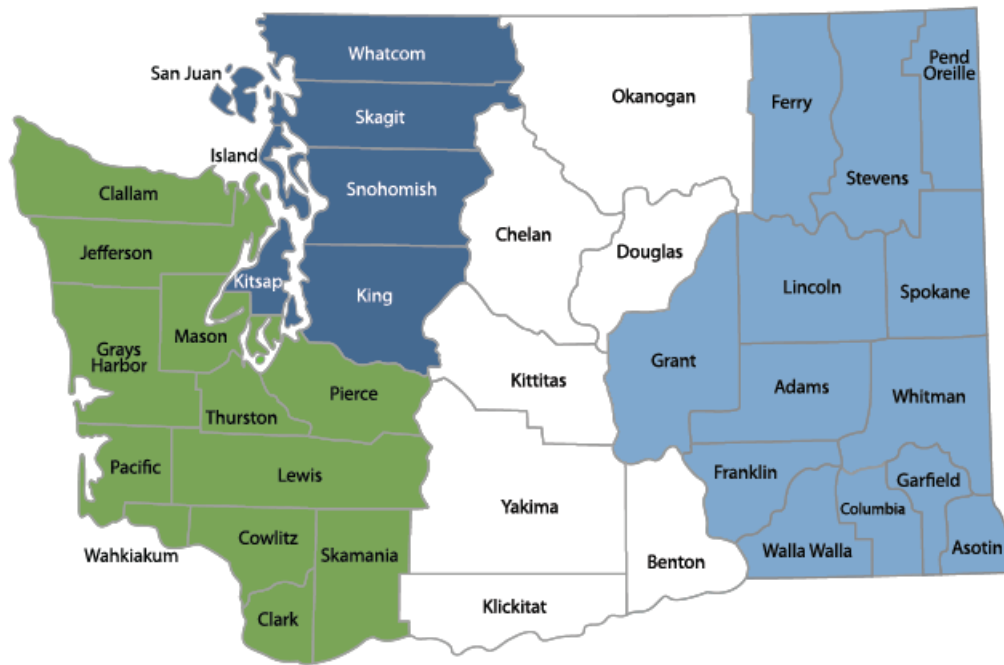
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Department of Ecology's Regional Offices

Map of Counties Served



Southwest Region 360-407-6300	Northwest Region 425-649-7000	Central Region 509-575-2490	Eastern Region 509-329-3400
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Region	Counties served	Mailing Address	Phone
Southwest	Clallam, Clark, Cowlitz, Grays Harbor, Jefferson, Mason, Lewis, Pacific, Pierce, Skamania, Thurston, Wahkiakum	PO Box 47775 Olympia, WA 98504	360-407-6300
Northwest	Island, King, Kitsap, San Juan, Skagit, Snohomish, Whatcom	PO Box 330316 Shoreline, WA 98133	206-594-0000
Central	Benton, Chelan, Douglas, Kittitas, Klickitat, Okanogan, Yakima	1250 W Alder St Union Gap, WA 98903	509-575-2490
Eastern	Adams, Asotin, Columbia, Ferry, Franklin, Garfield, Grant, Lincoln, Pend Oreille, Spokane, Stevens, Walla Walla, Whitman	4601 N Monroe Spokane, WA 99205	509-329-3400
Headquarters	Across Washington	PO Box 46700 Olympia, WA 98504	360-407-6000

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

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DEPARTMENT OF
ECOLOGY
State of Washington

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The authors of this report thank the following people for their contribution to this report:

- Beth McKee

Executive Summary

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

As of June 30, 2022, Ecology's CWSRF program had received a total \$859,142,460 in U.S. Environmental Protection Agency (EPA) capitalization grants. Since the inception of the program in 1988, Ecology has made net binding loan commitments totaling \$2,478,061,129.

Ecology provides this annual report to the EPA and the public to report the activities undertaken to reach the goals and objectives in the [State Fiscal Year 2022 Final Water Quality Funding Offer List and Intended Use Plan²](#) and the activities and obligations under the CWSRF program. This report describes the progress made toward program goals, the financial status of the CWSRF, and compliance with federal CWSRF requirements during SFY22 (July 1, 2021, through June 30, 2022).

The SFY22 IUP described the intended uses of the funds available in the CWSRF loan program and detailed how the CWSRF program planned to commit available funds. Eligible entities submitted funding applications as part of Ecology's Water Quality Program (WQP) combined application process by October 13, 2020. Ecology staff screened, rated, and ranked all submissions based on the requirements in Chapter 173-98 WAC and in the *Funding Guidelines, State Fiscal Year 2022 Water Quality Financial Assistance* Publication #20-10-024. This process provided control over the amount and type of loans made and facilitated compliance with federal mandates. As an indication of current interest in the program, Ecology received 36 applications for about \$324M in loans for the SFY22 funding.

Ecology used the Federal Fiscal Year (FFY) 2021 appropriation of \$27,631,000 as the capitalization grant for the SFY22 IUP. Ecology set the SFY22 CWSRF program capacity at \$310M based on cash flow model results. In addition to the EPA capitalization grant, CWSRF program funds came from a required state match of 20 percent of the grant (\$5,526,200), principal repayments, and interest and investment earnings.

² <https://apps.ecology.wa.gov/publications/documents/2110025.pdf>

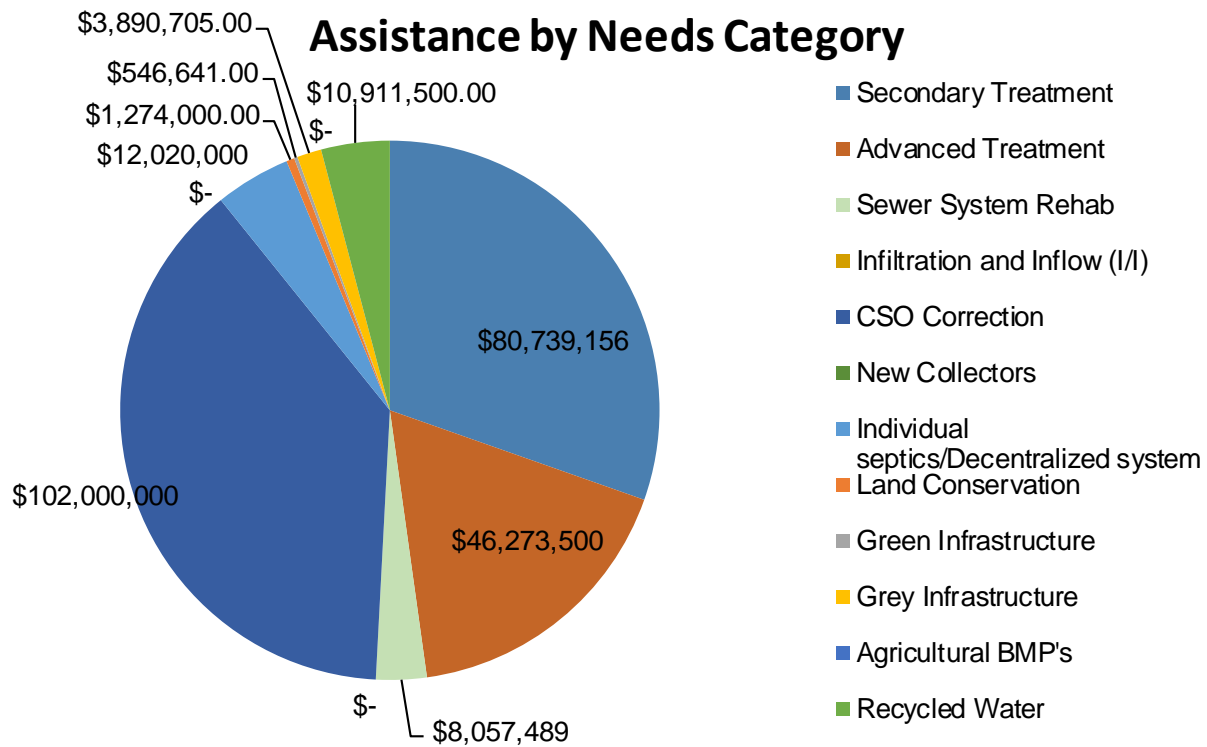
For SFY22, Ecology issued binding commitments for 36 projects totaling \$267,421,856. The weighted interest for these agreements is 1.3516 percent. Of these binding commitments, \$6,816,005 was provided in the form of forgivable principal (loans that do not have to be repaid) meeting the federal Additional Subsidization requirement outlined in the FFY21 capitalization grant (cap grant). The FFY21 capitalization grant set a minimum of \$2,763,100 and maximum of \$11,052,400 for forgivable principal loans.

The FFY21 capitalization grant required Ecology to award 10 percent of the federal capitalization grant (\$2,763,100) to projects or project elements that fit within one or more of the Green Project Reserve (GPR) categories. These categories include:

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

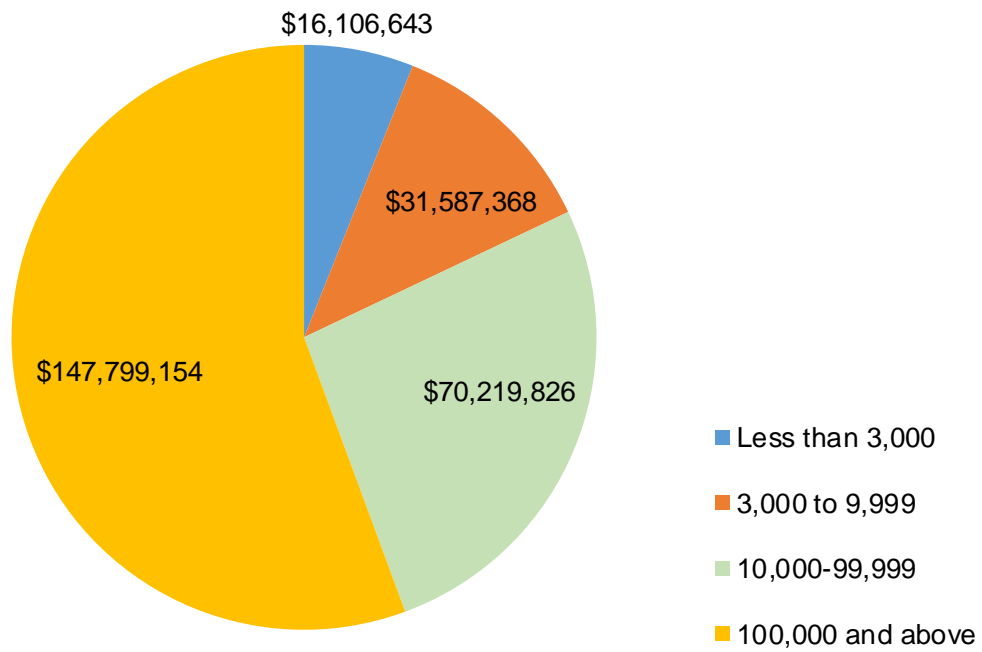
Ecology awarded \$58,790,664 or 213 percent of the cap grant to GPR projects or project elements, meeting this requirement.

The following graph shows assistance provided to each water quality needs category. A total of 95 percent of the funds in SFY22 are being used for Clean Water Act (CWA) Section 212 projects (wastewater projects) and 5 percent for CWA Section 319 (nonpoint activity projects). 54 percent of the funds are categorized as CWA Section 320 projects that are within the Puget Sound National Estuary Program boundary.

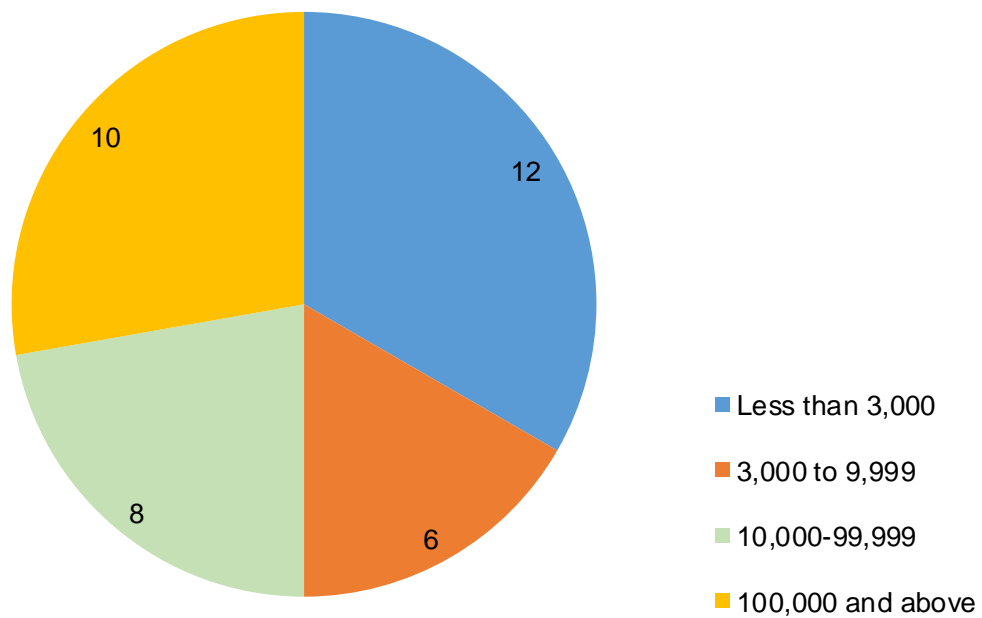


The following graph shows the assistance provided across population of recipient categories. 29 percent of the CWSRF funds supported projects in communities within the population category of 25,000 or below. However, 33 percent of our projects (12 of 36 total projects) are with communities under the population of 3,000. These projects are smaller in dollar amount but typically take more technical assistance and support to succeed.

Assistance by Population



Assistance by Number of Projects



INTRODUCTION

According to the Operating Agreement between EPA and Ecology, Ecology's Water Quality Program (WQP) is solely responsible for managing the CWSRF through its statutory authority Chapter 90.50A RCW: Water Pollution Control Facilities-Federal Capitalization Grants and Chapter 173-98 WAC: Uses and Limitations of the Water Pollution Control Revolving Fund. Ecology's CWSRF program is nationally recognized for its integrated business practices and high degree of accountability and sound management.

The CWSRF continues to grow in dollars and complexity. The long-term health of the CWSRF is strong despite market challenges that negatively affected the public and private sectors over the past few years. The flexible structure and overall strategy of the CWSRF enables Ecology to respond to emerging needs of local governments and tribes as well as addressing federal and state directives.

Sources of funds

The CWSRF is capitalized with annual grants from EPA and a required 20 percent state match. Ecology intends to reserve the maximum allowable authority of this capitalization grant for administrative expenses allowed by the federal Clean Water Act (CWA). Ecology also applies an administrative charge that went into effect December 2013. The administrative charge sets Ecology on track for self-sustainable administration of the CWSRF into perpetuity.

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

The Water Pollution Control Revolving Administration (WPCRA) account was established in 2013. This account is funded from an administrative charge of 1% charged on the declining principal of loans that went into repayment after the new rule was effective December 21, 2013. In 2020, Ecology evaluated the Administration account and projected fund balances to see if adjustments were needed. This assessment led to establishing a reduced administrative charge of 0.3% for SFY21 and future loans.

Uses of funds

The CWSRF is a key funding source used to advance the water quality goals of EPA and Ecology's Water Quality Program (WQP). The mission of the WQP and the CWSRF is to protect and restore Washington's waters to sustain healthy watersheds and communities by providing technical and financial assistance for high priority water quality efforts.

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

Ecology manages the CWSRF along with the state-funded Centennial Clean Water Program (Centennial), the state funded Stormwater Financial Assistance Program, and the federal CWA Section 319 Nonpoint Source Grant Program (Section 319).

Ecology makes every attempt to integrate and streamline the four funding sources under one combined program. This approach provides significant program savings and efficiencies for Ecology, its clients, and its stakeholders.

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

State fiscal year and Federal fiscal year

Washington State has a biennial budget cycle that spans two fiscal years and includes two funding cycles. The SFY runs from July 1 – June 30. The FFY runs from October 1 – September 30. Due to the differences in the fiscal years and budget cycles, there may be up to a nine-month lag from the time Congress passes the federal budget to when the Washington State Legislature approves the state budget and appropriations authorizing Ecology to use the funds. The FFY21 capitalization grant is administered in the SFY22 funding cycle.

What is in this report

This report discusses how Ecology administered the CWSRF FFY21 capitalization grant, state match, and principal and interest repayments during SFY22. Specifically, this report does the following:

- Describes Ecology's and the WQP's goals and objectives and discusses progress made toward meeting them.
- Lists several key conditions of the Operating Agreement and FFY21 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY22.
- Presents a Management Discussion and Analysis section providing CWSRF financial statements.
- Includes several exhibits containing the unaudited financial statements of the CWSRF for SFY22.

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

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

- Prevent and clean up water pollution.
- Clean up polluted waters and engage citizens in the work to protect and restore water quality.
- Provide excellent technical and financial assistance.

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

Goal 1: Identify and fund the highest priority water quality focused projects statewide.

Objectives and progress

- 1) Communicate with regional Ecology experts to identify water quality priorities.
 - Regional project managers and engineers review and evaluate funding applications. Ecology holds mandatory internal evaluator training sessions each year to ensure consistency and funding of the highest priority water quality projects. Ecology also holds a post-application evaluation meeting to further provide information on scoring consistency and objectivity before tabulating the final scores.
 - Ecology regional project managers work closely with the headquarters Financial Management Section and coordinate with staff specializing in total maximum daily loads (TMDL) and permitting during the application review and evaluation process.
- 2) Coordinate with external partners, including advisory groups, tribes, special purpose districts and state, federal, and local governments for input on water quality priorities.
 - Ecology requires projects to be consistent with applicable approved water quality plans, including, but not limited to the following: Puget Sound Action Agenda and Washington's Water Quality Management Plan to Control Nonpoint Sources of Pollution.
 - As a pre-requisite for receiving funding, Ecology required all projects located in the Puget Sound Watershed (defined by Water Resource Inventory Areas 1 – 19) to conform with the Puget Sound Partnership's Puget Sound Action Agenda.
 - Ecology evaluates and assesses its funding application each year before opening the application cycle to ensure it reflects the current state and federal priorities.
 - Ecology provides project proposals to numerous external stakeholders for review and comment prior to developing the Draft Funding Offer List and Intended Use Plan (Draft IUP) and project priorities. External stakeholders Ecology consults include, but not limited to, the following:

- Water Quality Financial Assistance Council (FAC).
 - Puget Sound Partnership.
 - Washington State Conservation Commission.
 - Washington State Department of Health (DOH).
 - Washington State Department of Commerce, Public Works Board.
- 3) Communicate with the Washington State Legislature regarding needs and priorities for funding.
- Ecology sends its Draft IUP to the Legislature for consideration during budget development. The document calls out funding recommendations for priority water quality improvement projects, including wastewater construction needs in small, hardship communities.

Goal 2: Provide funding through a fair, objective, and transparent process.

Objectives and progress

- 1) Involve stakeholders, including the public, in major funding program development, including rules and funding offer lists.
- Ecology regularly requests comments and feedback from stakeholders and clients on potential changes or improvements to its funding guidelines and application process.
 - Ecology organized and facilitated meetings with the Financial Assistance Council (FAC) to review and discuss ongoing and emerging CWSRF program issues.
 - Ecology held a meeting of its internal CWSRF Management Oversight Committee. Among the issues discussed were program status, fund management, cash flow acceleration, and coordination with other funding programs in Washington State.
 - Ecology staff and management regularly consult and coordinate with EPA to ensure its funding programs and funding agreements are meeting all federal requirements, including environmental prerequisites. This includes monthly check in calls with EPA program staff.
 - Ecology made the Draft IUP available to the public for comment. Ecology held a public meeting in Tacoma to discuss the Draft IUP and sought additional public comment during a 30-day public comment period.
- 2) Conduct two application Evaluators meetings with a focus on consistency and objectivity in scoring.
- Ecology annually trains staff assigned to evaluating applications. Ecology provides staff with tools and resources to help understand the scoring criteria and what they should be looking for. The training improves consistency and objectivity in application scores.

Goal 3: Provide the best possible funding packages for small, financially distressed communities.

Objectives and progress

- 1) Set aside one-third of Centennial grant for wastewater facility construction projects in small communities where the project would otherwise result in sewer fees for residential ratepayers that are more than two percent of the median household income (MHI).
 - In SFY22 Ecology offered 36 percent of the Centennial funds to wastewater facility construction projects in hardship communities.
- 2) Set aside five percent of the CWSRF for facility preconstruction projects in small communities with MHIs less than the state MHI. Provide forgivable principal loans if the MHI is less than 80 percent of the state MHI.
 - In SFY22 Ecology offered approximately 5 percent of the CWSRF funds to preconstruction projects in small communities. Ecology offered approximately 1 percent of the forgivable principal loan for such projects.
- 3) Reduce the SFAP grant match requirements for stormwater projects in small communities with MHIs less than 80 percent of the state MHI.
 - In SFY22, Ecology identified a reduced SFAP grant match for four stormwater projects.
- 4) Reduce the CWSRF interest rates for local onsite sewage system repair and replacement programs if they target loans to financially distressed homeowners and small business owners.
 - Ecology determines the final CWSRF interest rate for local onsite sewage system repair and replacement programs at the end of the project. Ecology will reduce the final interest rates based on the proportion of loans that the recipient provided to lower income homeowners and small commercial enterprises.

Goal 4: Provide technical assistance to funding applicants and recipients.

Objectives and progress

- 1) Work with EPA, other federal agencies, and other state agencies to ensure effective coordination associated with major federal and state requirements.
 - Ecology coordinates closely with other federal agencies and other state agencies to ensure it is meeting the federal and state environmental prerequisites. Ecology confirms compliance with federal cross cutter requirements for wastewater facility construction projects with federal agencies such as U.S. Fish and Wildlife Service, Bureau of Land Management, U.S. Forest Service, and National Oceanic and Atmospheric Administration. Ecology also coordinates with the Washington State Department of Archaeology and Historic Preservation and the Washington State Department of Commerce.
- 2) Provide outreach at workshops, conferences, and meetings to disseminate information related to the funding programs and requirements.

- Ecology organized multiple workshops for applicants and recipients of funding, attended and presented at multiple conferences. At each workshop and in each conference presentation, Ecology provided information on meeting major state and federal requirements. Major state and federal requirements discussed at the workshops and conference presentations included, but were not limited to, the following.
 - State Environmental Review Process (SERP).
 - Federal cross cutters.
 - Federal and state cultural resources.
 - American iron and steel
 - Federal and state procurement.
 - Minority Business Enterprise/Women Business Enterprise.
 - Davis-Bacon.
 - Growth Management Act.
- 3) Conduct annual funding applicant workshops.
 - Ecology held online applicant workshops for the SFY22 cycle in August 2021.
 - 4) Conduct annual funding recipient workshops.
 - Ecology held recipient training workshops online in July 2021.
 - 5) Maintain the [Water Quality Grants and Loans webpage](https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans) at: <https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans>
 - Ecology regularly updates [the grant and loan funding website](https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans) <https://ecology.wa.gov/About-us/How-we-operate/Grants-loans/Find-a-grant-or-loan/Water-Quality-grants-and-loans> to keep the public and stakeholders aware of funding and training opportunities and to provide them with related forms and publications.
 - 6) Contract with the Rural Community Assistance Corporation (RCAC) to provide special technical assistance for small communities.
 - 7) Provide directed technical assistance to small hardship communities with wastewater facility needs through an interagency agreement with Commerce to fund the Small Communities Initiative (SCI).
 - 8) Assist with planning and participate in the annual Infrastructure Assistance Coordinating Council (IACC) conference. Ecology is an IACC member, and an Ecology staff member is Vice Chair. Funding agency representatives work to coordinate the infrastructure funding programs to enable sharing information and problem solving.
 - The IACC hosted its annual conference October 2021 virtually where several Ecology staff presented information on the financial assistance programs. Ecology staff also participated in technical assistance (Tech Team) meetings to assist local communities in developing plans for specific infrastructure projects.

Goal 5: Provide sound financial management of the funding programs and projects.

Objectives and progress

- 1) Evaluate the CWSRF annually to ensure the availability of funds in perpetuity as defined by Chapter 173-98 WAC, Use and Limitations of the Water Pollution Control Revolving Fund.
 - Ecology uses the average [“11-Bond GO Index”](http://www.bondbuyer.com/marketstatistics/search_bbi.html?details=true) rate available at http://www.bondbuyer.com/marketstatistics/search_bbi.html?details=true to set annual interest rates for CWSRF. Ecology bases rates on the average bond rate for the period 30 to 180 days prior to the beginning of a new funding cycle.
 - Ecology sets interest rates at either 80 percent, 60 percent, or 30 percent of the average bond rate, depending on the length of the loan period. The interest rates for standard CWSRF loans in SFY22 were:
 - 0.6 percent for a five-year loan (30 percent of tax-exempt municipal bonds).
 - 1.2 percent for a 20-year loan (60 percent of tax-exempt municipal bonds).
 - 1.6 percent for a 30-year loan (80 percent of tax-exempt municipal bonds).
 - Ecology monitors the CWSRF to ensure that it will be available in perpetuity as required by the CWA. While the CWA does not define perpetuity, Ecology defined perpetuity in Chapter 173-98 WAC as, **“Perpetuity** means the department will seek to manage the revolving fund account so that available future funds at least match the rate of growth of *Engineering News-Record* “Construction Cost Index” for the City of Seattle.”
- 2) Conduct financial capability assessments on CWSRF loan recipients prior to signing agreements.
 - CWSRF agreements require a dedicated source of funds for repayment of the loan. Dedicated sources of revenue are a general obligation pledge or a revenue pledge. In the event of a CWSRF loan default, state law enables Ecology to withhold any state funds otherwise due to the community and directs that such funds be applied to the indebtedness and deposited into the CWSRF account.
 - Ecology staff conducts a financial capability assessment on each CWSRF loan recipient before finalizing the loan agreement. Staff review information provided by applicants, including audit reports and financial statements, and information available in the State Auditors Office’s Financial Intelligence Tool, <https://portal.sao.wa.gov/FIT/>. They produce an assessment that includes any recommended special conditions or reporting requirements to include in the agreement.
 - The information obtained for the assessment helps inform Ecology staff for the subsequent funding cycle. The financial capability assessment process continues to improve based on experience evaluating financial indicators and risk factors.
 - CWSRF agreements require each borrower to review its rate structure at least annually and update Ecology on the progress in meeting the goals and objectives included in use ordinances, resolutions, and rate studies.

- 3) Coordinate with Ecology's fiscal office on CWSRF financial management issues.
 - Ecology's CWSRF staff regularly coordinate with Ecology's Fiscal Office staff.
 - The CWSRF program is subject to annual state and federal audits (performance reviews). Ecology is responsive to auditor expectations and readily implements suggestions to improve the CWSRF program.
 - Ecology monitors recipient audit reports and takes action when appropriate.
 - Ecology Financial Managers and Project Managers provide oversight and monitoring of projects to ensure fiscal accountability.
- 4) Conduct internal workgroup meetings to identify problems, needs and emerging issues.
 - Regional Project Managers meet every other month, and Financial Managers meet monthly to discuss problems, needs, and emerging issues to clarify procedures, ensure consistency and intercept any potential problems.
- 5) Coordinate with advisory groups, councils and other funding agencies and programs.
 - Ecology met with FAC to review and discuss ongoing and emerging CWSRF and combined financial assistance program issues.
 - Ecology conducted two internal CWSRF Management Oversight Committee meetings to review program status, fund management, and emerging issues.
 - Ecology coordinated with the Community Development Block Grant (CDBG), Department of Health (DOH) and USDA Rural Development (RD) on funding projects.
 - Ecology CWSRF staff participated in the Maximizing Resources in a Coordinated Manner Workgroup. The Maximizing Resources Workgroup is a subgroup of the IACC. It is composed of representatives from most infrastructure funding programs operating in the state. The workgroup meets quarterly to discuss projects needing funding and to develop ways to maximize funding and simplify processes.

Meeting Key Conditions of the Operating Agreement and Capitalization Grant

In 2020, Ecology and EPA amended the Operating Agreement for the CWSRF program. The agreement contains numerous conditions that Ecology must meet. This report documents compliance with conditions in the Operating Agreement and Capitalization Grants.

Information on loan agreements signed and binding commitments

Ecology entered into binding commitments for 36 CWSRF agreements totaling \$267,421,856 in SFY22. Table 1 lists the four projects totaling \$8,368,612 that declined their funding offer. Table 2 provides information on agreements signed or binding commitments made in SFY22.

Table 1: Declined Funding Offers

Applicant	Application Number	Amount
Anacortes city of	WQC-2022-Anacor-00033	\$ 289,360
Clark County - Public Works Department	WQC-2022-CICoPW-00106	\$ 6,696,962
Spokane Conservation District	WQC-2022-SpoCoD-00124	\$ 1,000,000
Union Gap city of	WQC-2022-UniGap-00131	\$ 382,290
	4 Projects	\$ 8,368,612

Table 2: CWSRF Agreements/Binding Commitments in SFY22

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Aberdeen city of - Public Works	WQC-2022-AberPW-00099	EL220456/EF220457	Critical WWTP Improvements	VII-L - NPS - Decentralized Sewage Treatment	\$ 5,783,000	\$ 5,454,750	\$ 328,250	1.2%	20	6/6/2022
Aberdeen city of - Public Works	WQC-2022-AberPW-00116	EL220634/EF220635	Aberdeen FY 2022 Pump Station Improvement Project	VII-L - NPS - Decentralized Sewage Treatment	\$ 735,000	\$ 367,500	\$ 367,500	1.2%	20	6/6/2022
Brewster, City of	WQC-2022-Brewst-00114	EL220538/EF220539	City of Brewster Wastewater Improvements	I Secondary Treatment	\$ 3,126,184	\$ 2,752,324	\$ 373,860	1.3%	30	5/13/2022
Carbonado town of	WQC-2022-Carbon-00072	EL220260	Wastewater Treatment Plant Relocation and LOSS Conversion Feasibility Study	III-B Sewer System Rehabilitation	\$ 160,000	\$ 160,000		1.2%	20	2/25/2022
Chelan County Public Utilities District	WQC-2022-ChCPUD-00053	EL220343	Dryden Wastewater Improvement Project	III-B Sewer System Rehabilitation	\$ 1,024,090	\$ 1,024,090		1.2%	20	1/31/2022
Cheney city of	WQC-2022-Cheney-00151	EL220424	Cheney Purple Pipe Project	I Secondary Treatment	\$ 21,823,000	\$ 21,823,000		1.2%	20	5/13/2022

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Clarkston city of	WQC-2022-Clarks-00098	EL220435/EF220436	Collection Facility Plan	I Secondary Treatment	\$ 171,000	\$ 85,500	\$ 85,500	0.6%	5	4/12/2022
Cle Elum City of	WQC-2022-CoCle-00102	EL220660/EF220659	Cle Elum Stormwater Plan	II Advanced Treatment & X Recycled Water Distribution	\$ 331,655	\$ 165,828	\$ 165,828	0.6%	5	6/30/2022
Craft 3	WQC-2016-Craft3-00376	EL220208/EF220207	Statewide Expansion of Regional Clean Water OSS Loan Program (RLP)	I Secondary Treatment	\$ 11,520,000	\$ 9,520,000	\$ 2,000,000	1.6%	30	3/10/2022
Cusick Town of	WQC-2022-CusTo-00122	EL220655	Cusick STP Refinance	VI-C Green Stormwater	\$ 172,000	\$ 172,000		1.2%	20	5/5/2022
Deer Park city of	WQC-2022-DeePar-00071	EL220079	Wastewater Treatment Aeration Lagoon Replacement and Pump Station Upgrades	VI-C Green Stormwater	\$ 6,698,000	\$ 6,698,000		1.2%	20	3/23/2022

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Harrington city of	WQC-2022-Harrin-00076	EL220695/EF220696	Modification of the City of Harrington Wastewater Plant	I Secondary Treatment	\$ 429,750	\$ 369,500	\$ 60,250	0.5%	20	6/30/2022
Hoquiam City of	WQC-2022-HoquCi-00104	EL220257	Emerson Avenue Pump Station Improvements	I Secondary Treatment	\$ 2,115,462	\$ 2,115,462		1.6%	30	2/22/2022
Hoquiam City of	WQC-2022-HoquCi-00163	EL220258	Hoquiam General Sewer and WW Facility Plan Project	III-B Sewer System Rehabilitation	\$ 666,906	\$ 333,453	\$ 333,453	1.2%	20	2/22/2022
Ilwaco city of	WQC-2022-Ilwaco-00152	EL220648	Bear Ridge Community Forest Watershed Protection Project	I Secondary Treatment	\$ 1,274,000	\$ 1,274,000		1.6%	30	5/18/2022
King County - Natural Resources and Parks Department	WQC-2019-KCoNRP-00040	EL220271	Georgetown Wet Weather Treatment Station	I Secondary Treatment	\$ 43,000,000	\$ 43,000,000		1.6%	30	6/30/2022
Kitsap County - Public Works	WQC-2022-KiCoPW-00008	EL220412	Sewer Utility Facility Plans	V CSO Correction	\$ 3,777,718	\$ 3,777,718		1.2%	20	1/14/2022

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Kittitas city of	WQC-2022-CiKitt-00128	EL220543	City of Kittitas Benton Street Lift Station Improvements	III-B Sewer System Rehabilitation	\$ 655,000	\$ 624,000	\$ 31,000	1.2%	20	3/29/2022
LOTT Clean Water Alliance	WQC-2022-LOTCWA-00018	EL220109	Biological Process Improvements Construction	III-B Sewer System Rehabilitation	\$ 11,500,000	\$ 11,500,000		1.2%	20	10/26/2021
Lynden city of - Public Works Department	WQC-2022-LyndPW-00002	EL220550	Judson Street Downtown LID Demonstration Project - Phase 1	II Advanced Treatment	\$ 214,986	\$ 214,986		1.2%	20	3/25/2022
Palouse city of	WQC-2022-Palous-00055	EF220075	City of Palouse 2020 Wastewater System Improvements	VI-C Green Stormwater	\$ 100,000	\$ 100,000				3/17/2022
Pasco city of	WQC-2022-Pasco-00044	EL220421/EF220422	Clean Water Preservation - Phase 1	I Secondary Treatment	\$ 22,261,498	\$ 21,511,498	\$ 750,000	1.2%	20	2/18/2022
Seattle city of - Public Utilities Department	WQC-2021-SeaPUD-00191	EL220700	Ship Canal Water Quality Project	I Secondary Treatment	\$ 31,369,000	\$ 31,369,000		1.2%	20	6/30/2022

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Spokane city of	WQC-2017-Spokane-00016	EL220264	Cochran Basin Infiltration Ponds	V CSO Correction	\$ 837,500	\$ 837,500		2.0%	20	6/30/2022
Spokane city of	WQC-2019-Spokane-00148	EL220447	TJ Meenach Water Quality Improvements	VI-B Grey Stormwater	\$ 1,386,538	\$ 1,386,538		2.6%	20	6/30/2022
Spokane city of	WQC-2022-Spokane-00138	EL220665	Cochran Basin Control Vault	VI-B Grey Stormwater	\$ 1,666,667	\$ 1,666,667		1.2%	20	6/30/2022
Spokane Conservation District	WQC-2022-SpoCoD-00134	EL220714	Newman Lake Environmentally Responsible Septic Project	VI-B Grey Stormwater	\$ 500,000	\$ 500,000		0.8%	20	6/30/2022
Springdale town of	WQC-2022-ToSpring-00120	EL220496/EF220497	Springdale Facilities Plan	I Secondary Treatment	\$ 75,000	\$ 37,500	\$ 37,500	1.2%	20	5/2/2022
Stevenson city of - Public Works	WQC-2022-StevPW-00028	EL220218	Stevenson Clean Water Facility and Collection Improv-Construction Phase	I Secondary Treatment & III-B Sewer System Rehabilitation	\$ 9,004,054	\$ 9,004,054		1.5%	30	12/22/2021

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Tacoma city of - Environmental Services Department	WQC-2022-TacoES-00021	EL220451	CTP Electrical Distribution System Replacement Project - Construction Phase	I Secondary Treatment	\$ 14,610,731	\$ 14,610,731		1.6%	30	2/24/2022
Twisp town of - Public Works	WQC-2022-TwisPW-00057	EL220461/EF220462	Twisp 2020 Wastewater Treatment System Improvements	I Secondary Treatment	\$ 779,000	\$ 389,500	\$ 389,500	1.2%	20	3/21/2022
Vader city of	WQC-2020-Vaderc-00106	EF220060	City of Vader Wastewater Treatment Facility Lagoon Upgrades	I - Secondary Treatment	\$ 1,708,865	\$ 1,708,865				7/22/2021
Wapato city of	WQC-2022-Wapato-00039	EL220459/EF220460	Facility Plan Amendment No. 2 – Metals Removal Study	I Secondary Treatment	\$ 113,000	\$ 56,500	\$ 56,500	1.2%	20	3/15/2022
Wenatchee city of	WQC-2022-Wenatc-00023	EL220452	City of Wenatchee Digester Project	I Secondary Treatment	\$ 16,096,586	\$ 16,096,586		1.6%	30	2/25/2022

Recipient Name	Application Number (EAGL)	Agreement Number	Project Title	Clean Water Needs	Total Assistance	Loan Amount	Forgivable Loan Amount	Int Rate %	Term	Binding Commitment Date
Yakima County - Public Services Department	WQC-2020-YaCoPS-00155	EL220721/EF230004	Buena Wastewater Treatment Facility Improvements	I Secondary Treatment	\$ 242,666	\$ 214,666	\$ 28,000	0.7%	20	6/30/2022
Yelm city of - Public Works Department	WQC-2022-YelmPW-00058	EL220388	City of Yelm Water Reclamation Facility Modifications	II Advanced Treatment	\$ 23,862,000	\$ 23,862,000		1.2%	20	6/30/2022
Seattle city of - Public Utilities Department	WQC-2021-SeaPUD-00191	EL220699	Ship Canal Water Quality Project	V CSO Correction	\$ 27,631,000	\$ 27,631,000		1.2%	20	6/30/2022
			Total	36	\$ 267,421,856	\$ 262,414,716	\$ 5,007,141			

Timely and Expeditious Use of Funds

Table 3: Timely and Expeditious Use of Federal Funds

	Base + Title II	ARRA	Totals
Federal Funds Received (cumulative through SFY22)	790,990,560	68,151,900	859,142,460
State Match (cumulative through SFY22)	158,223,255		158,223,255
Principal and Interest Collected (cumulative through SFY22)	1,227,117,365		1,227,117,365
State Treasurer's Office Interest (cumulative through SFY22/cash basis)	48,878,907		48,878,907
Administration 4% (cumulative through SFY22)	(26,935,638)	(2,726,076)	(29,661,714)
Total Funds (cumulative through SFY22)	2,198,274,450	65,425,824	2,263,700,274
Loan Obligations (cumulative through SFY22)	2,412,611,480	65,449,649	2,478,061,129

Loans as % of Funds Available 109.47%

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

State match

The legislation authorized the match as a Treasurer's cash transfer from the State Taxable Building Construction account into account 727. For SFY21 the State Treasurer deposited \$5,526,200 into the CWSRF account.

Green Project Reserve

The FFY21 grant from EPA required Ecology to offer a minimum of ten percent of the grant to Green Project Reserve (GPR) projects or GPR elements of projects. The FFY21 grant totaled \$27,631,000, which set the GPR requirement at \$2,763,100.

In SFY22 Ecology made specific offers of \$58,790,664 M to the seven GPR-eligible projects (Table 4). These funds equal two hundred and thirteen percent of the cap grant, meeting the ten percent requirement.

Table 4: Green Project Reserve (GPR) Funded Projects in SFY22

Application Number	Agreement Number	Recipient Name	Project Title	GPR Category	Standard Loan Amount	Forgivable Principal Loan Amount
WQC-2022-Cheney-00151	EL220424	Cheney city of	Cheney Purple Pipe Project	Water Efficiency-Designation 2.2-6. Recycling and water reuse projects that replace potable sources with non-potable sources i.e., wastewater effluent reuse systems, extra treatment costs and distribution pipes.	\$ 21,823,000	
WQC-2016-Craft3-00376	EL220208/ EF220207	Craft 3	Statewide Expansion of Regional Clean Water OSS Loan Program (RLP)	Environmental Innovative-4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing OSS. This project solely addresses repair/replacement of failing OSS and fully meets the eligibility description.	\$ 9,520,000	\$ 2,000,000
WQC-2022-Ilwaco-00152	EL220648	Ilwaco city of	Bear Ridge Community Forest Watershed Protection Project	Green Infrastructure-Section 1.2-10. This project involves both the purchase of fee land and timber rights within the watershed in order to maintain hydrologic processes through the preservation of forestland.	\$ 1,274,000	

Application Number	Agreement Number	Recipient Name	Project Title	GPR Category	Standard Loan Amount	Forgivable Principal Loan Amount
WQC-2022-LOTWA-00018	EL220109	LOTT Clean Water Alliance	Biological Process Improvements Construction	Energy Efficiency: LOTT's consultant Cascade Energy estimates a plant-wide energy savings of 21.8% primarily due to pumping, mixing, and equipment efficiency.	\$ 1,198,420	
WQC-2022-LyndPW-00002	EL220550	Lynden city of - Public Works Department	Judson Street Downtown LID Demonstration Project - Phase 1	Green Infrastructure- 1.2-1, the project proposes to install pervious concrete alleys, vegetated runoff treatment devices and infiltration facilities for the residential roadway to provide full infiltration of all runoffs.	\$ 213,746	
WQC-2022-Pasco-00044	EL220421	Pasco city of	Clean Water Preservation - Phase 1	Energy Efficiency: 3.2-2 Projects that achieve a 20% reduction in energy consumption	\$ 21,511,498	\$ 750,000
WQC-2022-SpoCoD-00134	EL220714	Spokane Conservation District	Newman Lake Environmentally Responsible Septic Project	Environmental Innovative-4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing onsite wastewater systems.	\$ 500,000	
Total				\$ 58,790,664	\$ 56,040,664	\$ 2,750,000

Additional Subsidization (ASR) and Sustainability of Funded Projects

The FFY21 grant from EPA specifies that Ecology must use at least ten percent and up to forty percent of the grant to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants. The FFY21 grant totaled \$27,631,000, which set the ASR requirement with a minimum of \$2,763,100 and maximum of \$11,052,400.

There are two additional subsidy authorities. The annual appropriation authorized/required ten percent of the capitalization grant for any new eligible SRF project. Additionally, the CWA 603((a) additional subsidy authorizes at least ten percent but no more than thirty percent of the capitalization grant amount to provide additional subsidy to the following:

- any municipalities that meet the state's affordability criteria;
- municipalities that do not meet the state's affordability criteria but seek additional subsidization to benefit individual ratepayers in the residential user rate class;
- or any eligible borrower that implement a process, material, technique, or technology that addresses water or energy efficiency goals; mitigates stormwater runoff; or encourages sustainable project planning, design, and construction

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

In SFY22 Ecology provided forgivable principal loans to 16 applicants totaling \$6,816,006, falling within the minimum and maximum requirement. Table 5 summarizes the recipients that received forgivable principal loans for their projects.

Table 5: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY22

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afford the project without additional subsidization?
WQC-2022-AberPW-00099	EF220457	Aberdeen city of - Public Works	Critical WWTP Improvements	\$ 328,250	Sustainable Planning or Design	N
WQC-2022-AberPW-00116	EF220635	Aberdeen city of - Public Works	Aberdeen FY 2022 Pump Station Improvement Project	\$ 367,500	Sustainable Planning or Design	N
WQC-2022-Brewst-00114	EF220539	Brewster, City of	City of Brewster Wastewater Improvements	\$ 373,860	Sustainable Planning or Design	N
WQC-2022-Clarks-00098	EF220436	Clarkston city of	Collection Facility Plan	\$ 85,500	Sustainable Planning or Design	N
WQC-2022-CoCle-00102	EF220659	Cle Elum City of	Cle Elum Stormwater Plan	\$ 165,828	Sustainable Planning or Design	N
WQC-2016-Craft3-00376	EF220207	Craft 3	Statewide Expansion of Regional Clean Water OSS Loan Program (RLP)	\$ 2,000,000	Sustainable Planning or Design	N
WQC-2022-Harrin-00076	EF220696	Harrington city of	Modification of the City of Harrington Wastewater Plant	\$ 60,250	Sustainable Planning or Design	N
WQC-2022-HoquCi-00163	EF220259	Hoquiam City of	Hoquiam General Sewer and WW Facility Plan Project	\$ 333,453	Sustainable Planning or Design	N
WQC-2022-CiKitt-00128	EF220544	Kittitas city of	City of Kittitas Benton Street Lift Station Improvements	\$ 31,000	Sustainable Planning or Design	N
WQC-2022-Palou-00055	EF220075	Palouse city of	City of Palouse 2020 Wastewater System Improvements	\$ 100,000	Sustainable Planning or Design	Y
WQC-2022-Pasco-00044	EF220422	Pasco city of	Clean Water Preservation - Phase 1	\$ 750,000	Sustainable Planning or Design	Y

Application Number	Agreement Number	Recipient Name	Project Title	Forgivable Principal Loan	ASR Sustainability Criterion	Could the recipient afford the project without additional subsidization?
WQC-2022-ToSpri-00120	EF220497	Springdale town of	Springdale Facilities Plan	\$ 37,500	Sustainable Planning or Design	N
WQC-2022-TwisPW-00057	EF220462	Twisp town of - Public Works	Twisp 2020 Wastewater Treatment System Improvements	\$ 389,500	Sustainable Planning or Design	N
WQC-2020-Vaderc-00106	EF220060	Vader city of	City of Vader Wastewater Treatment Facility Lagoon Upgrades	\$ 1,708,865	Sustainable Planning or Design	N
WQC-2022-Wapato-00039	EF220460	Wapato city of	Facility Plan Amendment No. 2 – Metals Removal Study	\$ 56,500	Sustainable Planning or Design	N
WQC-2020-YaCoPS-00155	EF230004	Yakima County - Public Services Department	Buena Wastewater Treatment Facility Improvements	\$ 28,000	Sustainable Planning or Design	N
Total				\$ 6,816,006		

Additional subsidization (ASR) Capitalization Grant Requirement Verification

Since the FFY10 capitalization grant, EPA began authorizing a portion of the capitalization grant be used for additional subsidization in the form of a grant, forgivable principal loans, or negative interest rate loans. Each capitalization grant since has established a range (min/max) of the grant that could be used to provide these forms of assistance to recipients. Ecology meets this requirement by disbursing forgivable principal loans. EPA is required to verify Ecology met this requirement before they can close that corresponding capitalization grant. Ecology has provided EPA with backup documentation verifying the amounts disbursed by fiscal year for the FFY10 (CS-53000110), FFY11 (CS-53000111), FFY12 (CS-53000112), FFY13 (CS-53000113), FFY14 (CS-53000114), FFY15 (CS-53000115), and FFY16 (CS-53000116) capitalization grants (**Table 6**). By the end of SFY22, there were still open funding agreements with forgivable principal yet to be disbursed. Ecology was not yet able to verify compliance for FFY17, FFY18, FFY19, FFY20 and FFY21 until all the agreements are finished spending out and closed.

Table 6: Capitalization grant additional subsidization verification

FFY10/SFY11		FFY11/SFY12		FFY12/SFY13	
AS (min)	\$ 5,307,863.40	AS (min)	\$ 2,380,536.00	AS (min)	\$ 1,364,079.00
AS (max)	\$ 17,688,153.60	AS (max)	\$ 7,932,552.00	AS (max)	\$ 2,047,347.40
Awarded	\$ 8,544,312.13	Awarded	\$ 2,479,143.46	Awarded	\$ 1,817,471.45
Final Disbursement	\$ 8,544,312.13	Final Disbursement	\$ 2,479,143.46	Final Disbursement	\$ 1,817,471.45
FFY13/SFY14	\$ 23,246,763.00	FFY14/SFY15	\$ 24,383,000.00	FFY15/SFY16	\$ 24,258,000.00
AS (min)	\$ 1,093,620.00	AS (min)	\$ 1,326,866.00	AS (min)	\$ -
AS (max)	\$ 1,640,430.00	AS (max)	\$ 1,990,299.00	AS (max)	\$ 7,277,400.00
Awarded	\$ 1,626,830.95	Awarded	\$ 1,767,782.50	Awarded	\$ 2,287,789.56
Final Disbursement	\$ 1,626,830.88	Final Disbursement	\$ 1,730,538.79	Final Disbursement	\$ 2,287,789.56
FFY16/SFY17	\$ 23,235,000.00				
AS (min)	\$ 2,323,500.00				
AS (max)	\$ 9,294,000.00				
Awarded	\$ 3,719,976.77				
Final Disbursement	\$ 3,791,976.77				

Assistance to hardship communities

Ecology is committed to providing financial assistance to hardship communities. Nine percent or \$25,117,170 of CWSRF loan funds went to hardship communities. **Table 7** outlines the assistance provided in the form of reduced interest rates, forgivable principal loans, and Centennial grants to make these projects more affordable for eight communities.

Table 7: Hardship Assistance Provided in SFY22

Application Number	Agreement Number	Recipient Name	Project Title	Hardship Level	Standard Loan	Int Rate %	Term	Forgivable Principal Loan	State Grant	Total
WQC-2022-AberPW-00099	EL220456/EF22 0457	Aberdeen city of - Public Works	Critical WWTP Improvements	Preconstruction	\$ 5,454,750	1.2%	20	\$ 328,250		\$5,783,000
WQC-2022-AberPW-00116	EL220634/EF22 0635	Aberdeen city of - Public Works	Aberdeen FY 2022 Pump Station Improvement Project	Preconstruction	\$ 367,500	1.2%	20	\$ 367,500		\$ 735,000
WQC-2022-Brewst-00114	EL220538/EF22 0539	Brewster, City of	City of Brewster Wastewater Improvements	Elevated	\$ 2,752,324	1.3%	30	\$ 373,860	\$ 3,104,816	\$6,231,000
WQC-2022-ChCPUD-00053	EL220343	Chelan County Public Utilities District	Dryden Wastewater Improvement Project	Severe	\$ 1,024,090	1.2%	20		\$ 2,478,910	\$3,503,000
WQC-2022-Clarks-00098	EL220435/EF22 0436	Clarkston city of	Collection Facility Plan	Preconstruction	\$ 85,500	0.6%	5	\$ 85,500		\$ 171,000
WQC-2022-CoCle-00102	EL220660/EF22 0659	Cle Elum City of	Cle Elum Stormwater Plan	Preconstruction	\$ 165,828	0.6%	5	\$ 165,828		\$ 331,655
WQC-2022-CusTo-00122	EL220655	Cusick Town of	Cusick STP Refinance	Refinance	\$ 172,000	1.2%	20			\$ 172,000

Application Number	Agreement Number	Recipient Name	Project Title	Hardship Level	Standard Loan	Int Rate %	Term	Forgivable Principal Loan	State Grant	Total
WQC-2022-Harrin-00076	EL220695/EF220696	Harrington city of	Modification of the City of Harrington Wastewater Plant	Elevated	\$ 369,500	0.5%	20	\$ 60,250	\$ 927,750	\$,357,500
WQC-2022-HoquCi-00163	EL220258/EF220259	Hoquiam City of	Hoquiam General Sewer and WW Facility Plan Project	Preconstruction	\$ 333,453	1.2%	20	\$ 333,453		\$ 666,906
WQC-2022-CiKitt-00128	EL220543/EF220544	Kittitas city of	City of Kittitas Benton Street Lift Station Improvements	Preconstruction	\$ 624,000	1.2%	20	\$ 31,000		\$ 655,000
WQC-2022-Palous-00055	EF220075	Palouse city of	City of Palouse 2020 Wastewater System Improvements	Preconstruction				\$ 100,000		\$ 100,000
WQC-2022-ToSpri-00120	EL220496/EF220497	Springdale town of	Springdale Facilities Plan	Preconstruction	\$ 37,500	1.2%	20	\$ 37,500		\$ 75,000
WQC-2022-StevPW-00028	EL220218	Stevenson city of - Public Works	Stevenson Clean Water Facility and Collection Improvement Construction Phase	Elevated	\$ 9,004,054	1.5%	30		\$ 931,946	\$9,936,000

Application Number	Agreement Number	Recipient Name	Project Title	Hardship Level	Standard Loan	Int Rate %	Term	Forgivable Principal Loan	State Grant	Total
WQC-2022-TwisPW-00057	EL220461/EF220462	Twisp town of - Public Works	Twisp 2020 Wastewater Treatment System Improvements	Preconstruction	\$ 389,500	1.2%	20	\$ 389,500		\$ 79,000
WQC-2020-Vaderc-00106	EF220060	Vader city of	City of Vader Wastewater Treatment Facility Lagoon Upgrades	Elevated	\$ 1,708,865				\$ 2,581,576	\$ 290,441
WQC-2022-Wapato-00039	EL220459/EF220460	Wapato city of	Facility Plan Amendment No. 2 – Metals Removal Study	Preconstruction	\$ 56,500	1.2%	20	\$ 56,500		\$ 113,000
WQC-2020-YaCoPS-00155	EL220721/EF230004	Yakima County - Public Services Department	Buena Wastewater Treatment Facility Improvements	Elevated	\$ 214,666			\$ 28,000	\$ 407,334	\$ 50,000
Total					\$ 22,760,030			\$ 2,357,141	\$ 10,432,332	\$ 35,549,502

Emergency Funding

Ecology administers the Clean Water State Revolving Fund (CWSRF) Emergency Funding Program. The purpose of the program is to provide relatively quick access to no interest loans for small communities that experience water quality-related “environmental emergencies” as defined in WAC 173-98-030(27)4. The definition states, “Environmental emergency means a problem that a public body and the department agree poses a serious, immediate threat to the environment or to the health or safety of a community and requires immediate corrective action.”

The program seeks to simplify and expedite the application, agreement development, and project implementation processes in order to disburse funds to eligible projects soon as possible.

Ecology collaborated on program development to be as consistent as possible with the Washington State Department of Health’s (DOH) Drinking Water State Revolving Fund Emergency Loan Program. In SFY22 there were no Emergency funding loans applied for and awarded. State Environmental Review Process (SERP) and Federal Cross Cutters

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

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

CWSRF Administrative Charge

On May 1, 2013, the Governor signed SHB 1141, which amended RCW 90.50A.090 establishing the water pollution control revolving fund administrative account. On December 21, 2013, Ecology adopted an amendment to Chapter 173-98 Washington Administrative Code (WAC), **Uses and Limitations of the Water Pollution Control Revolving Fund** allowing for a one percent charge on loans to be used for administrative costs related to CWSRF. Ecology began applying the charge to all loans entering repayment on or after that date. As of June 30, 2022, the total administrative charge funds deposited into the Administrative Account (564) totaled \$20,494,674.

Ecology used Account (564) to pay for administrative charges totaling \$1,926,857 in SFY22. Between SFY16 and SFY22, Ecology used a total of \$9,116,496 for administrative costs. Ecology plans to use Account (564) for ongoing administration costs. Ecology evaluated the charge, forecasted revenue, and reduced the rate to .3 percent on FY21 and future loans. Once loans being charged one percent are repaid, .3 percent appeared to bring in revenue closer to the amount needed for administrative costs. Ecology actively manages the Administrative Account by transferring excess funds into Account (727) to fund projects. In July 2021, \$6,000,000 was transferred from fund 564 to 727.

Drawing funds from the Capitalization Grant

EPA requires that each capitalization grant be drawn down within two years from when the grant is awarded. At any one time, there should only be at most two capitalization grants with unspent

funds. Once Ecology receives a grant, any disbursement requests from sub recipients is paid out of the state match allocated for that grant. Once the state match is 100% disbursed, Ecology then disburses federal grant funds until they are fully expended. This method ensures we meet the federal draw proportionality requirement and disburse all federal funds timely and expeditiously.

As of June 30, 2022, there were no balances in any capitalization grants.

Fund Management and Health of the Account

The CWSRF account balance had grown over the years. By the end of SFY22, the cash balance was \$401,786,665. Quarterly revenue into the account from repayments and federal grants has outpaced quarterly expenditures. One significant contributing factor is early repayment/payoffs. In the last fiscal years, Ecology has received early repayment totaling \$207M. This is a result of low interest rates and communities consolidating debt at lower rates. In addition, the impact of COVID-19 on local municipality budgets appears to be creating some project delays. We are amending agreements to push out project completion dates.

Ecology updates its cash flow model quarterly. The model is used to make future decisions related to appropriation requests and for available funding for each funding cycle. Ecology is adjusting disbursement assumptions and deobligation assumptions to align the cash flow model with a better reality, integrating evolving project delay issues, and early repayments. Ecology's goal is to get the cash balance down to approximately \$60M and maintain that balance over time.

Equivalency Projects

"Equivalency requirements" refer to specific requirements EPA applies to Ecology's funding for the CWSRF. "Equivalency" means that Ecology is only required to report and/or track compliance with the requirements by CWSRF loan recipients up to an amount equivalent to the Capitalization Grant Ecology receives from EPA.

Due to amendments to the Clean Water Act (CWA) in 2014, equivalency now applies to the following:

- Architectural and engineering (A/E) services procurement.
- Disadvantaged Business Enterprises (DBE)
- Federal Funding Accountability and Transparency Act (FFATA).
- Most of the federal cross cutters.
- Single Audit Act (SAA)

In prior years, Ecology met the equivalency requirements by applying them to certain types of projects or applicants. EPA issued a memo stating that the same group of projects must comply with all the equivalency requirements. Between SFY16 and SFY18, Ecology identified equivalency projects by type to allow predictability for our recipients. We identified any wastewater facility Step 3 (Construction) and Step 4 (Design and Construction) projects for recipients with a population of 25,000 or greater. During our Single Audit for SFY18, the State auditor told Ecology that there was a problem with identifying projects totaling more than the capitalization grant.

Ecology began identifying projects totaling closer to the amount of capitalization grant by selecting one or two wastewater facility projects for recipients with a population of 25,000 or more. We also made it clearer in our agreements which loan dollars are Federal Equivalency funds. Table 8 lists the SFY22 project selected as the equivalency project.

Table 8: SFY22 Equivalency Projects

Recipient Name	Application Number	Agreement Number	Final Loan Amount	A/E Procurement Included
Seattle city of - Public Utilities Department	WQC-2021-SeaPUD-00191	EL220699	27,631,000	Yes
Total			\$ 27,631,000	

CWSRF Program Changes and Ongoing Development

New Staff Resources funded by CWSRF

Early Repayments

Due to record low interest rates many local governments decided to consolidate their debt. This resulted in many CWSRF recipients paying off their loans in repayment. Between SFY21 and 22, there was a total of \$207 M in early repayments. Ecology decided to put the money back out into new projects instead of offering loan restructuring. If Ecology offered all existing loans the opportunity to restructure it would have resulted in an increased workload on Ecology fiscal office. Ecology worked with King County and City of Seattle to identify additional funding needed for high priority water quality projects partially funded on the SFY22 list to put additional funding into.

Reducing Barriers for Small Communities

Ecology is creating a new simplified funding process to help meet the anticipated wastewater infrastructure needs for small communities. Funds may be awarded to hardship eligible projects, if available, for the next phase of these projects once the current phase is completed and approved. The purpose is to reduce barriers for small communities to access funding. Some of the barriers this addresses includes eliminating multiple applications, ability to move forward with the next phase when ready and providing certainty the project is fully funded.

Bipartisan Infrastructure Law (BIL)

President Biden signed the Bipartisan Infrastructure Law (BIL) on November 15, 2021. The law’s investment in the water sector is nothing short of transformational. It includes \$50 billion to the U.S. Environmental Protection Agency (EPA) to strengthen the nation’s drinking water and wastewater systems – the single largest investment in clean water that the federal government has ever made. For Washington CWSRF this is an additional \$240M over the next five years (FFY22 through FFY26). This includes funding in addition to the annual capitalization grant.

BIL funding is authorized but still requires appropriations in the annual legislative budget. BIL prioritizes 49% of the capitalization grant be directed to disadvantaged communities. It also provides funding to address emerging contaminants and funding for EPA's Sewer Overflow and Stormwater Reuse Municipal Grant program.

Build America, Buy America Act (BABA)

Congress passed the Build America Buy America (BABA) Act in 2021, concurrently with the BIL. Congress established this domestic preference program to create long-term opportunities for domestic manufacturers and manufacturing jobs and build resilient domestic supply chains for a wide range of products.

For CWSRF recipients, BABA expands existing American Iron and Steel (AIS) requirements (which EPA has implemented since 2014) to include construction materials and manufactured goods. Staff have been reviewing guidance and information about waivers as they have come out from the Office of Management and Budget (OMB) and EPA. EPA has stated in the implementation memo that BABA is an equivalency requirement. They have also issued a waiver that states if a project has started their plans and specs before May 14, 2022, they are exempt from the requirements. This new provision that will apply to the FFY22/SFY23 offer list.

New Staff Resources and Small Communities Technical Assistance

Ecology received approval through the state budget process to add an additional four FTE positions. This will be funded out of the CWSRF administrative charge. This will provide additional staff in each of the regional offices to provide a full-time project manager. Currently those duties are split with staff working on permitting. This will help address the growing number of projects and workload. Additionally, Ecology added a small communities technical assistance position to serve the westside of the state. This expands our technical assistance to include two engineers who can help small communities address issues they experience in moving projects forward and preparing them for funding.

WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Notes to the Financial Statements for fiscal year 2022

Management Discussion and Analysis

This Management Discussion and Analysis (MD&A) introduces the annual financial statements of the State of Washington Department of Ecology, Clean Water State Revolving Fund Loan Program (CWSRF) and Water Pollution Control Revolving Admin (WPCRA) for the years ended June 30, 2022. These two funds are reported together and are referred to as CWSRF Program. It is a required supplement to these financial statements. It describes and analyzes the financial position of the CWSRF program, providing an overview of the CWSRF's activities. The State of Washington Department of Ecology (Ecology) is responsible for the content of these financial statements. The MD&A provides readers with a summary of the issues and information Ecology management hopes is useful to the reader.

The CWSRF program

The CWSRF account provides financial assistance in the form of low-interest loans to local governments and tribes for water quality projects of high priority. Ecology receives an annual grant from United States of America Environmental Protection Agency (EPA). The federal fiscal year (FFY) 2021 grant award was \$27,631,000. Ecology matches 20 percent of the grant award with state funds, of \$5,526,200. The funding levels for the CWSRF program each fiscal year are based on federal appropriations, state legislative appropriations, repayments from past loans, interest on investments, and de-obligated funds. The funding made available for projects in the state fiscal year (SFY) 2022 was \$253.5M as published in Ecology's Intended Use Plan. CWSRF loan interest rates are between zero and two percent. This account is for loan activity.

In 2013, the Water Pollution Control Revolving Admin (WPCRA) account was established. This account was funded from an administrative charge of 1 percent charged on the declining principal of loans that went into repayment after the new rule was effective December 21, 2013. Ecology reduced the rate to 0.3 percent on FY21 and future loans. Once loans charged 1 percent are repaid, projection shows that 0.3 percent bring in revenue closer to the amount needed for administrative costs. This account is for program administrative activities to manage the CWSRF.

Using this Annual Financial Report

The financial statements included in this annual financial report are those of the combined CWSRF and WPCRA. The basic financial statements of the CWSRF and WPCRA represent the financial position, changes in financial position, and cash flows as of the years ended June 30, 2022, of only that portion of the financial reporting entity of the Department of Ecology that is attributable to the transactions of the CWSRF and WPCRA. They do not purport to present the financial position of the Department of Ecology or the State of Washington (State) as of June 30, 2022 and the change in the net positions and their cash flows for the year ended.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Management's Discussion and Analysis for fiscal year 2022**

Overview of Financial Statements

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

The *Statement of Net Position* present information on all the CWSRF's and WPCRA's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position are expected to serve as a useful indicator of whether the financial position of the CWSRF and WPCRA are improving or deteriorating.

The *Statement of Revenues, Expenses, and Changes in Net Position* present information showing how CWSRF's and WPCRA's net position changed during the past year. All changes in the net position are reported, as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

The *Statement of Cash Flows* report the CWSRF's and WPCRA's cash flows from operating activities, noncapital financing activities, and investing activities.

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

Net Position

	June 30,2022	June 30,2021
ASSETS		
Cash and cash equivalents	401,519,794	319,090,460
Loans receivable	857,314,408	898,818,210
Other assets	1,730,408	142,364
Total assets	1,260,564,610	1,218,051,034
DEFERRED OUTFLOWS OF RESOURCES	896,679	802,485
LIABILITIES		
Current liabilities	168,957	436,139
Noncurrent liabilities	5,462,869	3,246,813
Total liabilities	5,631,826	3,682,952
DEFERRED INFLOWS OF RESOURCES	2,147,791	862,203
NET POSITION		
Restricted	1,253,681,672	1,214,308,364

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
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Management's Discussion and Analysis for fiscal year 2022**

The net position increased from \$1,214,308,364 as of June 30, 2021 to \$1,253,681,672 as of June 30, 2022. This increase is mostly due to an increase in repayments and decrease of loan disbursements. The net position is comprised solely of resources restricted for the CWSRF program. The CWSRF program has no capital assets and no related debt.

During SFY22 the CWSRF total activity cash increased by \$82,429,334, as seen on the Statement of Net Position. The increase in cash is a result of increased repayments and decrease of loan disbursements. The State Treasurer's office credited \$2,188,247 in interest to the CWSRF account. The EPA capitalization grant funds provided \$27,631,000 and the State of Washington provided \$5,526,310 in matching funds.

The change in loans receivable is caused by more loans being in repayment. Ecology disbursed \$164,750,753 in loans during the year. Ecology received \$202,250,066 in principal payments from borrowers and applied \$6,121,394 in principal forgiveness during the year. Ecology paid \$1,684,882 in administrative expenses to employees, vendors, and for indirect costs.

Changes in Net Position

Changes in Net Position

	June 30, 2022	June 30, 2021
REVENUES		
Program revenues:		
Loan interest income	7,852,172	15,961,182
Loan Service Fee	4,152,118	5,628,182
General revenues:		
Investment income	2,188,247	2,149,313
Total revenues	14,192,537	23,738,677
EXPENSES		
Program expenses:		
Administrative expenses	1,684,882	1,874,403
Principal forgiveness	6,121,394	3,349,486
Total expenses	7,806,276	5,223,889
Income before contributions	6,386,261	18,514,788
Capital contributions:		
EPA capitalization grant	27,631,000	27,936,476
State and other contributions	5,526,310	5,474,804
Total capital contributions	33,157,310	33,411,280
Change in net position	39,543,571	51,926,068
Net position - beginning of year, as previously reported	1,214,308,364	
Prior period adjustment	(170,263)	
Net position - beginning of year, as restated	1,214,138,101	1,162,382,296
Net position - end of year	1,253,681,672	1,214,308,364

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Management's Discussion and Analysis for fiscal year 2022**

Income for Fiscal Year 2022

Income before contributions of the CWSRF for SFY22 was \$6,386,261, which includes \$2,188,247 of investment income. Operating income or loss includes those amounts earned by the ordinary activities of the program, minus the related expenses. Ordinary activities of the program include interest earned on loans, the loan service fee, and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment.

Net operating income increases the net position in the program. Other increases to net position include amounts received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In 2022, the CWSRF earned \$27,631,000 in federal funds and \$5,526,310 in state matching funds.

State Matching Funds

For SFY 2022, state matching funds came from the State Taxable Building Construction Account. Revenue from that account comes from a combination of bond proceeds and other miscellaneous revenue. CWSRF received cash match of \$5.5 million.

Economic Conditions and Outlook

Ecology continues to improve Washington State's CWSRF program through strategic planning and funding program updates to address changing economic conditions. Annually, Ecology addresses changes and updates of policies, procedures, and guidelines to ensure financial health and sustainability of the fund. They also periodically review and update program statute and rules to address emerging water quality financial assistance needs. SFY22 demand for funds continued to be higher than funds available. This demand indicates that local governments are moving forward with their infrastructure projects and points to a general improvement in the local government economic outlook after the economic downturn.

For SFY22 (FFY21) the federal capitalization grant was approximately \$33.2 million (including match), which was lower than the previous year. The outlook for ongoing federal funding generally points to reductions in future capitalization grants to the SRF programs. Although capitalization grants are an important source of revenue, the CWSRF has a sound level of repayment and interest income that would sustain the revolving loan fund at a lower level. Ecology uses a cash flow model to project and predict available fund resources each funding year, with a 20-year projected outlook. This model has allowed Ecology to award additional loan funding through available cash resources and includes ongoing repayments, program income, and disbursements. Ecology accounts for possible reductions in the capitalization grant through the model.

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

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Management's Discussion and Analysis for fiscal year 2022**

Conclusion

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

Requests for Information

The financial report is designed to provide interested parties with a general overview of the CWSRF program finances. For questions, concerning the information provided in this report or requests for additional information should contact Jeff Nejedly, Financial Management Section Manager, Department of Ecology, Water Quality Program, at jeffrey.nejedly@ecy.wa.gov or (360) 407-6572.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Statement of Net Position
for the year ended June 30, 2022**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2022
ASSETS	
Current Assets:	
Cash and cash equivalents	\$401,519,794
Receivables:	
Due from other state funds	275,192
Loans Receivable	55,870,713
Total current assets	457,665,699
Noncurrent Assets:	
Loans Receivable	801,443,695
Net pension asset	1,455,216
Total Noncurrent assets	802,898,911
Total Assets	1,260,564,610
DEFERRED OUTFLOWS OF RESOURCES	
Resources for Pensions	507,507
Resources for OPEB	389,172
Total Deferred Outflows of Resources	896,679
Total Assets and Deferred Outflows of Resources	1,261,461,289
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	65,777
Due to other state funds	94,057
Total OPEB Liability	9,123
Total current liabilities	168,957
Noncurrent Liabilities:	
Unearned Revenue	4,768,422
Net Pension Liability	150,912
Total OPEB Liability	543,535
Total Noncurrent Liabilities	5,462,869
Total Liabilities	5,631,826
DEFERRED INFLOWS OF RESOURCES	
Resources on Pensions	1,705,092
Resources on OPEB	442,699
Total Deferred Inflows of Resources	2,147,791
NET POSITION	
Restricted	1,253,681,672
Total Net Position	1,253,681,672
Total Liabilities, Deferred Inflows of Resources, and Net Position	1,261,461,289
The accompanying notes are an integral part of the financial statements	

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Statement of Revenues, Expenses, and Changes in Net Position
for the year ended June 30, 2022**

	2022
OPERATING REVENUE	
Loan interest income	7,852,172
Loan service fee	4,152,118
Total operating revenue	12,004,290
OPERATING EXPENSES	
Personnel services	1,246,677
Other expenses	438,205
Loan Principal Forgiveness expense	6,121,394
Total operating expenses	7,806,276
NET OPERATING INCOME (LOSS)	4,198,014
NONOPERATING REVENUE (EXPENSE)	
Net investment income	2,188,247
Total nonoperating revenue (expense)	2,188,247
INCOME BEFORE CONTRIBUTIONS	6,386,261
CONTRIBUTIONS	
EPA capitalization grant	27,631,000
State match revenue	5,526,310
Total contributions	33,157,310
CHANGE IN NET POSITION	39,543,571
Beginning Balance per AFRS	
NET POSITION - BEGINNING OF YEAR, as previously reported	1,214,308,364
Prior Period Adjustment	(170,263)
NET POSITION-Beginning of year, as restated	1,214,138,101
NET POSITION - END OF YEAR	1,253,681,672

The accompanying notes are an integral part of the financial statements

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Statement of Cash Flows for the year ended June 30, 2022**

	2022
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash paid to employees and vendors	(\$2,419,826)
Cash Received from Interest on Loans	7,852,172
Loan Service Fee	4,152,118
Loans Disbursed	(164,750,753)
Principal received on Loans Receivable	202,250,066
Net Cash flows provided (required) by operating activities	47,083,777
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Funds received from EPA	27,631,000
Funds received from the state of Washington	5,526,310
Net Cash flows provided (Required) by noncapital operating activities	33,157,310
CASH FLOWS FROM INVESTING ACTIVITIES	
Net investment income received	2,188,247
Net Cash Provided (Required) by Investing Activities	2,188,247
NET INCREASE IN CASH AND CASH EQUIVALENTS	82,429,334
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	319,090,460
CASH AND CASH EQUIVALENTS - END OF YEAR	401,519,794
Reconciliation of operating income to net cash required by operating activities	
Income from Operations	4,198,014
Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:	
Prior Period Adjustment	(170,263)
Changes In Assets: Decrease (Increase)	
Loans Receivable	41,503,802
Due from other state funds	(132,828)
Change in Deferred Outflows of Resources: (Increase) Decrease	(1,549,410)
Changes In Liabilities: Increase (Decrease)	
Accounts Payable and Accrued Expenses	(168,933)
Due to other state funds	(70,243)
Due to Federal Government	(28,158)
Pension & OPEB Liabilities	99,303
Unavailable Revenue	2,116,905
Change in Deferred Inflows of Resources: Decrease (Increase)	1,285,588
Net Cash Provided (Required) by Operating Activities	\$47,083,777

The accompanying notes are an integral part of the financial statements

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Notes to the Financial Statements for fiscal year 2022**

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

Reporting Entity

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

The Water Pollution Control Revolving Admin (WPCRA-Program Activities) account was established in 2013. This account was funded from an administrative charge of 1% charged on the declining principal of loans that went into repayment after the new rule was effective December 21, 2013. Ecology reduced the rate to 0.3 percent on FY21 and future loans. Once loans charged 1% are repaid, projection shows that 0.3 percent bring in revenue closer to the amount needed for administrative costs. This account is for program administrative activities to manage the CWSRF.

Operation of the CWSRF and the Account

The CWSRF provides loans at reduced interest rates to finance qualified projects for the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and the development and implementation of estuary conservation and management plans. Loans made by the Account must be repaid within 30 years. All repayments, including interest and principal, must be credited to the Account.

States are required to provide an additional 20 percent of the Federal capitalization grant amount as matching funds in order to receive the grant from EPA. The State has been awarded \$859,142,460 in capitalization grants from 1989 through June 30, 2022. The State match share for that awarded amount is \$158,199,227.

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

WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Notes to the Financial Statements for fiscal year 2022

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

Basis of Accounting

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

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

Cash and Cash Equivalents

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

Loans Receivable

Ecology operates the Account as a direct loan program, which makes loans to communities through funding by the Federal capitalization grant for 83.3 percent of the loan amount, and funding by State matching for 16.7 percent of the loan amount. Loan funds are disbursed to local entities after they expend funds for the purposes of the loan and then request reimbursement from the Account. Interest is calculated from the date the state warrant is mailed, or the Electronic Fund Transfer settlement date. After the final disbursement, the loan amount and repayment schedule are adjusted for actual funds disbursed and interest accrued during the

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
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Notes to the Financial Statements for fiscal year 2022**

project period. No provision for uncollectible accounts has been made as management believes that all loans will be repaid according to the loan terms.

Forgivable Principal

During the June 30, 2012 fiscal year, the federal Appropriations Act of 2011 was passed by Congress. This Act authorized some of the same requirements that were introduced in the American Recovery and Reinvestment Act of 2010. One of these requirements is forgivable principal hardship loans. The maximum forgivable principal loan amount for each hardship recipient is \$5 million. Ecology disbursed \$6,121,394 in forgivable principal loans during the years ended June 30, 2022, which is recognized upon loan closure when final amounts of the project are determined.

Operating Revenues and Expenses

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

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

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

Use of Estimates in Preparing Financial Statements

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

Prior Period Adjustments

Ecology reported a reduction in beginning net position in order to report the CWSRF's proportionate share of the state of Washington's PERS 1 net pension liability.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Notes to the Financial Statements for fiscal year 2022**

The CWSRF recorded a reduction to the beginning net position as a result of these reporting changes. The Net Position at July 1, 2021 has been restated as follows:

Restated Net Position

Net Position – Beginning of year, as previously reported	1,214,308,364
Prior period adjustment	(170,263)
Net Position – Beginning of year, as restated	1,214,138,101

Note 2: Deposits and Investments

All monies of the Account are deposited with the State Treasurer’s Office (OST) as part of the State’s Treasury/Trust Portfolio and are considered cash equivalents. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investment portfolios to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The Account’s proportionate share of the investment income, based on the average daily balance for the period, is credited to the Account monthly. The Treasurer charges the Account .02 of one percent of the average daily balance for administration costs. As of June 30, 2022, total Treasurer’s invested balance of the Treasury/Trust Fund Portfolio was \$19.2 billion. Details of the investments can be obtained from the State Treasurer’s Office.

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

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

	<u>Carrying Amount</u>	<u>Market Value</u>
Treasury/Trust Portfolio June 30, 2022	<u>\$401,786,665</u>	<u>\$401,786,665</u>

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM**

Notes to the Financial Statements for fiscal year 2022

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

	2022
CWSRF Securities on loan:	
Fair Value	\$18,713,298
*Cash Collateral held by CWSRF:	
Fair Value	
Reported Value	
OST Securities on loan:	
Fair Value	\$892,647,036
Cash Collateral held by OST:	
Fair Value	0
Reported Value	\$0

Revised Code of Washington (RCW) 43.84.080, contract dated September 1, 2017 between the OST and Northern Trust Company that runs through August 31, 2023. There were no violations of legal or contractual provisions.

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

As of June 30, 2022 investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$401,786,665 book value and \$892,647,036 fair value.

On June 30, 2022, the average life of both the loans and the investment of cash received as collateral was one day.

The investment policy requires that any securities on loans be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2022, the OST had no

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
CWSRF PROGRAM
Notes to the Financial Statements for fiscal year 2022**

credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

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

Note 3: Loans Receivable

The Account makes loans to qualified entities for projects that meet the eligibility requirements of The Act. Loans are financed by capitalization grants, state matches, and revolving funds. Interest rates for SFY 2022 were established at 1 percent for up to a five year-term and 2 percent for loans with more than a five-year term, but no more than 30 years. The Account also makes hardship loans with a variable interest rate, as low as zero, to communities that can demonstrate financial hardship on residential ratepayers in the form of sewer user fees. Loan repayments are required to start one year after initiation of operations or project completion, whichever occurs first.

As of June 30, 2022, the Account had total new binding commitments of \$264,451,208, which meets the program requirement of committing 120% of the federal grant payment within one year following receipt. Federal funds awarded to date including ARRA Federal funds is \$859,142,460 as of June 30, 2022. Loan obligations as of June 30, 2022, which include state matching requirements and principal and interest collected from repayment, were \$2,478,061,129.

Loans by Category

Fiscal Year 2022	Loans Authorized	Remaining Commitment	Outstanding Balance
Completed Projects	1,341,620,177.10	775,078,927.40	566,541,249.70
Projects in Progress	720,149,878.25	429,376,720.29	290,773,157.96
Total			<u>857,314,407.66</u>
Payment request in progress (Received as of June 30, 2022, but not yet paid)			0
Less amount due in one year			<u>55,870,712.96</u>
Loans Receivable, June 30, 2022 (Net of current maturities)			<u>801,443,694.70</u>

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

Year Ending June 30	Interest	Principal	Total
2023	12,152,147.18	56,092,402.38	68,244,549.56
2024	13,325,152.15	59,525,883.80	72,851,035.95
2025	14,282,160.39	61,823,763.28	76,105,923.67
2026	15,435,383.20	66,028,872.84	81,464,256.04
2027	17,003,512.78	70,680,304.55	87,683,817.33
2028-2032	68,367,539.66	302,188,871.15	370,556,410.81
2023-2037	35,497,646.82	211,246,891.34	246,744,538.16
2038-2042	25,013,445.54	195,237,402.09	220,250,847.63
2043-2055	19,240,774.57	187,333,647.70	206,574,422.27
Total	220,317,762.29	1,210,158,039.13	1,430,475,801.42
*Less adjustment for static report		(643,616,789.43)	
Loans not yet in repayment		290,773,157.96	
Total loans receivable		857,314,407.66	

*Report does not account for extra payments, early payments, etc.

Loans to Major Local Entities

As of June 30, 2022, the Account made loans to the following major local entities. The aggregate outstanding balance for each of these entities exceeds 5 percent of total loans receivable. The combined outstanding balances of these loans on June 30, 2022 is \$465,215 thousand and represents approximately 54.0 percent of the total loans receivable of \$926,336 thousand and are as follows:

2022

Borrower	Authorized Loan Amount	Outstanding Loan Balance
City of Seattle	195,108	124,031
King County Dept of Natural Resources	460,230	113,689
City of Oak Harbor	100,521	89,148
City of Spokane	109,977	87,099
Pierce County	60,500	51,248
Total	926,336	465,215

Dollars expressed in thousands

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

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Note 4: Capital Contributions

The Account is funded by grants from EPA authorized by the Clean Water Act and by matching funds from the State. All funds drawn are recorded as non-operating revenue from the EPA and Washington State. Since 1989, EPA has awarded a total of approximately \$859,142,460 in grants to the State, of which approximately \$859,142,460 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$153,791,480 in matching funds for that total drawn amount. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans: (Figures are expressed in thousands)

Year	Grant Award	Funds Drawn as of June 30, 2021 & Prior	Funds Drawn during year Ended June 30, 2022	Funds Drawn as of June 30, 2022	Available for Loans or Admin as of June 30, 2022
1989-2009	476,311	476,311		476,311	
2010	35,433	35,433		35,433	
2011	25,680	25,680		25,680	
2012	24,578	24,578		24,578	
2013	23,247	23,247		23,247	
2014	24,383	24,383		24,383	
2015	24,258	24,258		24,258	
2016	23,235	23,235		23,235	
2017	23,056	23,056		23,056	
2018	27,912	27,912		27,912	
2019	27,631	27,631		27,631	
2020	27,635	27,635		27,635	
2021	27,631		27,631	27,631	
Total	790,990	763,359	27,631	790,990	0
2008-ARRA	68,152	68,152	0	68,152	0
Total	\$859,142	\$831,511	\$27,631	\$859,142	\$0

	State Match applied as of June 30, 2021 & Prior	State Match applied during year ended June 30, 2022	State Match applied as of June 30, 2022
State Disbursed	\$152,673	\$5,526	\$158,199
		Drawn	State Match

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

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Administrative Fund

In July 2013, legislation in the state of Washington became effective which allows CWSRF program to collect a service charge on loans which will be used for administrative costs. This is the Water Pollution Control Revolving Admin (WPCRA) account. In FY22, \$6,000,000 was transferred from WPCRA to the CWSRF. The fees collected and the expenses incurred are not included in the accompanying financial statements. Revenue collected and expenses incurred for the administrative fund are as follows:

	June 30, 2022
Administrative fee collected	4,152,118
Interest on admin fee collected	29,839
Revenue transferred out	(6,000,000)
	(1,818,043)
Operating expenses incurred	(\$1,592,076)

Note 5: Contingencies

Contingencies

The Account is exposed to various risks of loss, related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Account business, or acts of God. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The Account maintains insurance for all risks of loss, which is included in the indirect costs allocated to the Account. There have not been any claims against the Account since its inception in 1989. Refer to the State’s Risk Management disclosure in the June 30, 2022 Annual Comprehensive Financial Reports.

Note 6: Retirement Plans

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

The table below shows the net pension liability, deferred outflows of resources, and deferred inflows of resources reported on June 30, 2022, for the Clean Water State Revolving Program’s proportionate share of the liabilities for the PERS 2/3 and PERS 1 Plans. Additional detail is provided later in this note.

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Clean Water State Revolving Program Proportionate Share

June 30, 2022

	Net Pension Asset	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
PERS 2/3	1,455,216	0	434,363	1,537,630
PERS 1	0	150,912	73,144	167,462

DRS prepares a stand-alone financial report of the retirement plans that is compliant with the requirements of GASB Statement No. 67. Copies of the report may be obtained by contacting the Washington State Department of Retirement Systems, P.O. Box 48380, Olympia, Washington 98504-8380 or online at [DRS Annual Financial Reports](#).

Note 6.A: Public Employees' Retirement System

Plan Descriptions

The Legislature established the PERS in 1947. PERS retirement benefit provisions are established in chapters 41.34 and 41.40 RCW and may be amended only by the Legislature. Membership in the system includes elected officials; state employees; employees of the Supreme Court, Court of Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college, and university employees not in national higher education retirement programs; judges of district and municipal courts; and employees of local governments.

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

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

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

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Benefits Provided

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

Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, capped at 60 percent. The AFC is the average of the member's 24 highest consecutive service months.

Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits. Plan 1 members may elect to receive an optional cost of living allowance (COLA) that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

Plan 2 members are vested after completing five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. There is no cap on years of service credit and a COLA is granted based on the Consumer Price Index, capped at 3 percent annually. The AFC is the average of the member's 60 highest paid consecutive months. Plan 2 members have the option to retire early with reduced benefits.

Plan 3 members are vested in the defined benefit portion of their plan after 10 years of service; or after five years of service, if 12 months of that service are earned after age 44. The defined benefit portion of Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. There is no cap on years of service credit. Plan 3 provides the same COLA as Plan 2. The AFC is the average of the member's 60 highest paid consecutive months. Plan 3 members have the option to retire early with reduced benefits.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors, with reduced benefits.

Contributions

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

Plan 1 member contribution rates are established in statute. The Office of the State Actuary (OSA) develop contributions for Plan 2/3 employer and employee contribution rates to fully fund Plan 2 and the defined benefit portion of Plan 3. The contribution rate for Plan 2 state agency employees on June 30, 2022, was 6.36 percent of the employee's annual covered salary.

Each biennium, the state Pension Funding Council adopts employer contribution rates for Plan 1 and Plan 3, and for employer and employee contribution rates for Plan 2.

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The methods used to determine contribution requirements are established under statute and are subject to change by the Legislature.

Upon separation from covered employment, members can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit.

The employer contribution rate for the Clean Water State Revolving Program at the close of fiscal year 2022 for each of Plans 1, 2, and 3 was 10.25 percent.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2020, with the results rolled forward to June 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates which vary by member status (e.g., active, retiree, or survivor), as the base table. The Office of the State Actuary (OSA) applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Under "generational" mortality, a member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

The actuarial assumptions used in the June 30, 2020, valuation was based on the results of the 2013-2018 Experience Study Report and the 2021 Economic Experience Study. Additional assumptions for subsequent events and law changes are current as of the 2020 actuarial valuation report.

The 7.40 percent long-term expected rate of return on pension plan investments was determined using a building-block method in which a best estimate of expected future rates of return (expected returns, net of pension plan investment expense but including inflation) are developed for each major asset class by the WSIB. Refer to the 2021 Report on Financial Condition and Economic Experience Study located on the OSA website for additional information and background on the development of the long-term rate of return assumption.

The WSIB's Capital Market Assumptions (CMAs). The CMAs contain the following three pieces of information for each class of assets in which the WSIB currently invests:

- Expected annual return.
- Standard deviation of the annual return.

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- Correlations between the annual returns of each asset class with every other asset class.

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2021, are summarized in the following table:

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

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

Discount Rate

The discount rate of 7.40 percent was also used for the prior measurement date. To determine the discount rate, an asset sufficiency test was completed to test whether the pension plan’s fiduciary net position was sufficient to make all projected future benefit payments of current plan members.

Based on those assumptions in OSA’s Certification Letter, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.40 percent on pension plan investments was applied to determine the total pension liability.

The following presents the net pension liability/(asset) of the employers, calculated using the discount rate of 7.40 percent, as well as what the employers’ net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (6.40 percent) or one percentage point higher (8.40 percent) than the current rate.

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

	PERS 2/3	PERS 1
1% Decrease	(2,312,194)	257,088
Current Discount Rate	(1,455,216)	150,912
1% Increase	(414,563)	58,317

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Net Pension Asset/Liability

On June 30, 2022, the Clean Water State Revolving Program reported an asset of \$1,455,216 for PERS 2/3 and a liability of \$150,912 for PERS 1, for its proportionate share of the collective net pension. The Clean Water State Revolving Program’s proportion for PERS 2/3 and PERS 1 was .028 percent, and increase of .014 percent since the prior reporting period, the proportions are based on the Clean Water State Revolving Program’s contributions to the pension plan relative to the contributions of all participating employers.

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

For the year ended June 30, 2022, a pension expense of \$(425,808) for PERS 2/3, and \$74,967 for PERS 1, was recognized.

On June 30, 2022, PERS 2/3 and PERS 1 reported deferred outflows and inflows of resources related to pensions from the following sources:

Deferred Outflows and Inflows of Resources				
June 30, 2022				
	PERS 2/3		PERS 1	
	Outflows	Inflows	Outflows	Inflows
Difference between expected and actual experience	70,678	17,840		
Changes in assumptions	2,127	103,344		
Net difference between projected and actual earnings on pension plan investments		1,216,219		167,462
Changes in proportionate share of contributions	244,686	200,227		
Contributions subsequent to measurement date	116,873		73,144	
	434,363	1,537,630	73,144	167,462

Pension contributions made subsequent to the measurement date for PERS 2/3 and PERS 1, was reported as deferred outflows of resources on June 30, 2022, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022.

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

**Net Deferred Outflows and (Inflows) of Resources
Fiscal Year ended June 30, 2022**

	PERS 2/3	PERS 1
2023	(311,841)	(44,361)
2024	(289,990)	(40,651)
2025	(301,461)	(38,437)
2026	(311,244)	(44,013)
2027	(10,813)	-
Thereafter	5,209	-

Note 7: Other Postemployment Benefits

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

Plan Description and Funding Policy

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

Per RCW 41.05.065, the Public Employees Benefits Board (PEBB) created within the HCA is authorized to design benefits and determine the terms and conditions of employee and retired employee participation and coverage, including establishment of eligibility criteria for both active and retired employees. Benefits purchased by PEBB include medical, dental, life, and long-term disability.

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

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

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

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

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2021, the average weighted implicit subsidy was valued at \$384 per adult unit. In calendar year 2022, the average weighted implicit subsidy is projected to be \$390 per adult unit per month.

Retirees enrolled in both Parts A and B of Medicare may participate in the state's Medicare community-rated health insurance risk pool. Medicare retirees receive an explicit subsidy in the form of reduced premiums. Annually, the HCA administrator recommends an amount for the next calendar year's explicit subsidy for inclusion in the Governor's budget. The final amount is approved by the Legislature. In calendar year 2022, the explicit subsidy was up to \$183 per member per month and it will remain \$183 per member per month in calendar year 2023.

Administrative costs, as well as implicit and explicit subsidies are funded by required contributions (RCW 41.05.050) from participating employers. The subsidies provide monetary assistance for medical benefits.

Contributions are set each biennium as part of the budget process. The benefits are funded on a pay-as-you-go basis.

For information on the results of the most recent actuarial valuation for the OPEB plan, refer to the [Washington State Legislature OPEB valuations](#).

Total OPEB Liability

As of June 30, 2022, the Clean Water State Revolving Program reported a total OPEB liability of \$552,658.

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Changes in Total OPEB Liability

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

Changes in Total OPEB Liability for Year Ending June 30, 2022		<u>Ecology</u>
Total OPEB Liability-Beginning		510,000
Changes for the year:		
Service cost		27,622
Interest cost		11,938
Differences Between Expected and Actual Experience		-
Changes of assumptions*		5,101
Benefit payments		(9,095)
Changes in proportionate share		7,092
Other		-
Net Change in Total OPEB Liability		<u>42,658</u>
Total OPEB Liability-Ending		<u>552,658</u>

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

Actuarial Assumptions

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

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

Inflation	2.75%
Projected salary changes	3.50% plus service-based salary increases
Healthcare trend rates	
<i>Initial trend rate ranges from 2-11%, reaching an ultimate rate of approximately 4.3% in 2075</i>	
Post-retirement participation	65.0%
Percentage with spouse coverage	45.0%

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In projecting the growth of the explicit subsidy, after 2023 when the cap is \$183, it is assumed to grow at the healthcare trend rate. The Legislature determines the value of the cap, and no future increases are guaranteed, however, based on historical growth patterns, future increases to the cap are assumed.

Sensitivity of the Healthcare Cost Trend Rate

	Ecology
1% Decrease	669,583
Current Discount Rate	552,658
1% Increase	461,748

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

Most demographic actuarial assumptions, including mortality, and when members are expected to terminate and retire, were based on the results of the 2013-2018 Demographic Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2021 Economic Experience Study.

Actuarial Assumptions

The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	6/30/2020
Actuarial Measurement Date	6/30/2021
Actuarial Cost Method	Entry Age
Amortization Method	9 years
Asset Valuation Method	N/A – No Assets

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.21 percent for the June 30, 2020 measurement date and 2.16 percent for the June 30, 2021 measurement date.

The following represents the Clean Water State Revolving Program’s proportionate share of the total OPEB liability, calculated using the discount rate of 2.16 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.16 percent) or one percentage point higher (3.16 percent) than the current rate.

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**Sensitivity of the Discount Rate
OPEB Liability**

	Ecology
1% Decrease	445,870
Current Discount Rate	552,658
1% Increase	669,961

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

The following table shows components of the Clean Water State Revolving Program’s allocated annual OPEB costs for fiscal year 2022. The Clean Water State Revolving Program’s will recognize OPEB expense of \$16,060.

**Proportionate Share of OPEB Expense
Ending June 30, 2022**

	Ecology
Current year allocated Costs:	
Service cost	27,622
Interest cost	11,938
Amortization of Differences between Expected and Actual Experience	1,585
Amortization of changes of assumptions	(16,291)
Amortization of changes in proportion	329
Transactions subsequent to the measurement date	(9,123)
Other Changes in Fiduciary Net Position	0
Total OPEB Expense	16,060

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

For fiscal year 2022 Ecology reported its proportionate share of the state reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**Deferred Outflows and Inflows of Resources
June 30, 2022**

	Inflows	Outflows
Difference between expected and actual experience	2,139	9,453
Changes of assumptions	100,199	35,196
Transactions subsequent to the measurement date		9,123
Changes in Proportion	340,361	335,401
Total	442,699	389,173

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Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the year ended June 30, 2022.

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

Net Deferred Outflows and (Inflows) of Resources	
Subsequent Years	
	Ecology
2023	(14,380)
2024	(14,380)
2025	(14,380)
2026	(14,383)
2027	(6,139)
Thereafter	1,012

A complete description of the funded status and actuarial assumptions of the state of Washington's OPEB plan is included in the Annual Comprehensive Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Statewide Accounting Division of the Office of Financial Management at P.O. Box 43127, Olympia, Washington 98504-3127, or online at [Office of Financial Management Annual Comprehensive Financial Report](#).

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**PENSION PLAN INFORMATION
Cost Sharing Employer Plans**

Schedule of the SRF's Proportionate Share of the Net Pension Liability					
Public Employees' Retirement System (PERS) Plan 2/3					
Measurement Date of June 30 *					
<i>(Expressed in thousands)</i>					
	2021	2020	2019	2018	2017
SRF's PERS Plan 2/3 employers' proportion of the net pension liability/(asset)	0.03%	0.01%	0.03%	0.02%	0.03%
SRF's PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset)	1,654,503	402,396	485,727	472,368	514,378
SRF's PERS Plan 2/3 employers' covered payroll	1,590,243	860,110	1,664,884	852,717	1,453,653
SRF's PERS Plan 2/3 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered payroll	104.04%	46.78%	29.17%	16.43%	35.39%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	120.29%	97.22%	97.77%	95.77%	90.97%
* This schedule is to be built prospectively until it contains ten years of data.					

Schedule of Contributions					
Public Employees' Retirement System (PERS) Plan 2/3					
Fiscal Year Ended June 30*					
<i>(Expressed in thousands)</i>					
	2022	2021	2020	2019	2018
Contractually Required Contributions	105,899	70,739	141,857	67,154	114,728
Contributions in relation to the contractually required contributions	105,899	70,739	141,857	67,154	114,728
Contribution deficiency (excess)	0	0	0	0	0
Covered payroll	1,619,151	896,366	1,796,898	890,443	1,544,694
Contributions as a percentage of covered payroll	6.54%	7.89%	7.89%	7.54%	7.43%
* This schedule is to be built prospectively until it contains ten years of data.					

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Schedule of the SRF's Proportionate Share of the Net Pension Liability		
Public Employees' Retirement System (PERS) Plan 1		
Measurement Date of June 30 *		
<i>(expressed in thousands)</i>		
	2021	2020
SRF's PERS Plan 1 employers' proportion of the net pension liability/(asset)	0.03%	0.01%
SRF's PERS Plan 1 employers' proportionate share of the net pension liability/(asset)	240,606	1,197
SRF's PERS Plan 1 covered payroll	10,010	6,398
SRF's PERS Plan 2/3 covered payroll	1,753,485	860,110
Covered Payroll	<u>1,763,495</u>	<u>866,507</u>
SRF's PERS Plan 1 employers' proportionate share of the net pension liability/(asset) as a percentage of its covered-employee payroll	14%	0.14%
Plan fiduciary net position as a percentage of the total pension liability/(asset)	88.74%	68.64%
* This schedule is to be built prospectively until it contains ten years of data.		

Schedule of Contributions		
Public Employees' Retirement System (PERS) Plan 1		
Fiscal Year Ended June 30*		
<i>Applied Ecology FY 2022 Rate</i>		
	2022	2021
Contractually Required Contributions	73,686	47,054
Employer contributions related to covered payroll of employees participating in PERS Plan 1	792	665
Employer UAAL Contributions related to covered payroll of employees participating in PERS Plan 2/3	72,894	46,390
Contributions in relation to the contractually required contributions	<u>73,686</u>	<u>47,054</u>
Contribution deficiency (excess)	<u>0</u>	<u>0</u>
Covered payroll of employees participating in PERS Plan 1	7,977	5,117
Covered payroll of employees participating in PERS Plan 2/3	1,619,151	896,366
Covered Payroll	<u>1,627,128</u>	<u>901,483</u>
Contributions as a percentage of covered-employee payroll	4.53%	5.22%
* This schedule is to be built prospectively until it contains ten years of data.		

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PENSION PLAN INFORMATION

Notes to Required Supplementary Information

Methods and assumptions used in calculations of Actuarially Determined Contributions (ADC) for PERS, TRS, LEOF, and WSPRS.

The Office of the State Actuary (OSA) calculates the ADC based on the results of an actuarial valuation consistent with the state's funding policy defined under chapter 41.45 of the Revised Code of Washington (RCW). Consistent with the state's contribution rate adoption process, the results of an actuarial valuation with an odd-numbered year valuation date determine the ADC for the biennium that ensues two years later. For example, the actuarial valuation with a June 30, 2017, valuation date, completed in the fall of 2018, determined the ADC for the period beginning July 1, 2019, and ending June 30, 2021.

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

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

OSA calculates the ADC consistent with the methods described above. Adopted contribution rates may be different pending the actions of the governing bodies.

OTHER POSTEMPLOYMENT BENEFITS INFORMATION

Schedule of Changes in Total OPEB Liability and Related Ratios					
As of the Measurement Date June 30*					
Total OPEB Liability	2021	2020	2019	2018	2017
Service cost	\$27,622	\$ 21,163	\$ 20,500	\$ 29,533	\$ 33,611
Interest	11,938	17,704	17,782	20,304	15,743
Changes in benefit terms	0	0	0	0	0
Difference between expected and actual experience	0	(2,713)	0	18,533	0
Changes in assumptions	5,101	11,476	33,115	(129,292)	(76,797)
Benefit payments	(9,095)	(8,429)	(8,134)	(8,575)	(8,024)
Other	7,092	(35,484)	(29,349)	46,089	2,949
Net Changes in Total OPEB Liability	42,658	3,717	33,914	(23,408)	(32,518)
Total OPEB Liability - Beginning	510,000	506,282	472,368	495,775	528,293
Total OPEB Liability - Ending	\$552,658	\$ 509,999	506,282	472,367	495,775
Covered Payroll	\$374,205	\$ 332,674	374,396	349,315	670,419
Total OPEB liability as a percentage of covered payroll	67.71%	65.23%	66.55%	60.53%	73.95%

*The recognition period for these changes is ten years. This is equal to the average expected remaining service live of all active and inactive members.

Note: Figures may not total due to rounding

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

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Comparative Activity of Net Position as of June 30, 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2022	2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$401,519,794	\$319,090,460
Receivables:		
Due from other state funds	275,192	142,364
Loans Receivable	55,870,713	57,913,812
Total current assets	457,665,699	377,146,636
Noncurrent Assets:		
Loans Receivable	801,443,695	840,904,398
Net pension asset	1,455,216	
Total Noncurrent assets	802,898,911	840,904,398
Total Assets	1,260,564,610	1,218,051,034
DEFERRED OUTFLOWS OF RESOURCES		
Resources for Pensions	507,507	351,903
Resources for OPEB	389,172	450,582
Total Deferred Outflows of Resources	896,679	802,485
Total Assets and Deferred Outflows of Resources	1,261,461,289	1,218,853,519
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	65,777	234,710
Due to other state funds	94,057	164,300
Due to Federal Government		28,158
Total OPEB Liability	9,123	8,971
Total current liabilities	168,957	436,139
Noncurrent Liabilities:		
Unearned Revenue	4,768,422	2,651,517
Net Pension Liability	150,912	94,268
Total OPEB Liability	543,535	501,028
Total Liabilities	5,631,826	3,682,952
DEFERRED INFLOWS OF RESOURCES		
Resources on Pensions	1,705,092	331,496
Resources on OPEB	442,699	530,707
Total Deferred Inflows of Resources	2,147,791	862,203
NET POSITION		
Restricted	1,253,681,672	1,214,308,364
Total Net Position	1,253,681,672	1,214,308,364
Total Liabilities, Deferred Inflows of Resources, and Net Position	1,261,461,289	1,218,853,519

The accompanying notes are an integral part of the financial statements

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**Comparative Activity of Revenues, Expenses, and Changes in Net Position for the year ended
June 30, 2022**

	2022	2021
OPERATING REVENUE		
Loan interest income	7,852,172	15,961,182
Loan service fee	4,152,118	5,628,182
Total operating revenue	12,004,290	21,589,364
OPERATING EXPENSES		
Personnel services	1,246,677	1,431,737
Other expenses	438,205	442,666
Loan Principal Forgiveness expense	6,121,394	3,349,486
Total operating expenses	7,806,276	5,223,889
NET OPERATING INCOME (LOSS)	4,198,014	16,365,475
NONOPERATING REVENUE (EXPENSE)		
Net investment income	2,188,247	2,149,313
Total nonoperating revenue (expense)	2,188,247	2,149,313
INCOME BEFORE CONTRIBUTIONS	6,386,261	18,514,788
CONTRIBUTIONS		
EPA capitalization grant	27,631,000	27,936,476
State match revenue	5,526,310	5,474,804
Total contributions	33,157,310	33,411,280
CHANGE IN NET POSITION	39,543,571	51,926,068
Beginning Balance per AFRS		
NET POSITION - BEGINNING OF YEAR, as previously reported	1,214,308,364	1,162,382,296
Prior Period Adjustment	(170,263)	0
NET POSITION-Beginning of year, as restated	1,214,138,101	1,162,382,296
NET POSITION - END OF YEAR	1,253,681,672	1,214,308,364

The accompanying notes are an integral part of the financial statements

**WASHINGTON STATE DEPARTMENT OF ECOLOGY
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Comparative Activity of Cash Flows for Year Ending June 30, 2022

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash paid to employees and vendors	(\$2,419,826)	(\$1,541,833)
Cash Received from Interest on Loans	7,852,172	15,961,182
Loan Service Fee	4,152,118	5,628,182
Loans Disbursed	(164,750,753)	(99,480,622)
Principal received on Loans Receivable	202,250,066	127,867,423
Net Cash flows provided (required) by operating activities	47,083,777	48,434,332
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Funds received from EPA	27,631,000	27,936,476
Funds received from the state of Washington	5,526,310	5,474,804
Net Cash flows provided (Required) by noncapital operating activities	33,157,310	33,411,280
CASH FLOWS FROM INVESTING ACTIVITIES		
Net investment income received	2,188,247	2,149,313
Net Cash Provided (Required) by Investing Activities	2,188,247	2,149,313
NET INCREASE IN CASH AND CASH EQUIVALENTS	82,429,334	83,994,925
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	319,090,460	235,095,535
CASH AND CASH EQUIVALENTS - END OF YEAR	401,519,794	319,090,460
Reconciliation of operating income to net cash required by operating activities		
Income from Operations	4,198,014	16,365,475
Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:		
Prior Period Adjustment	(170,263)	0
Changes In Assets: Decrease (Increase)		
Loans Receivable	41,503,802	30,515,911
Due from other state funds	(132,828)	128,274
Due from Fed Government		4,591
Change in Deferred Outflows of Resources: (Increase) Decrease	(1,549,410)	(212,845)
Changes In Liabilities: Increase (Decrease)		
Accounts Payable and Accrued Expenses	(168,933)	183,735
Due to other state funds	(70,243)	56,967
Due to Federal Government	(28,158)	28,158
Pension & OPEB Liabilities	99,303	(51,341)
Unavailable Revenue	2,116,905	1,220,376
Change in Deferred Inflows of Resources: Decrease (Increase)	1,285,588	195,031
Net Cash Provided (Required) by Operating Activities	\$47,083,777	\$48,434,332

The accompanying notes are an integral part of the financial statements

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Disbursements and Accruals for the year ended June 30, 2022

	SFY 2022	Federal	State- Match	State-Repmt- Other	564 Acct
2022 Disbursements for Loans	33,157,200	27,631,000	5,526,200	131,593,553	
2022 Disbursements for Admin	<u>2,019,663</u>	-	-	92,806	<u>1,926,857</u>
Total Disbursements	35,176,863	27,631,000	5,526,200	131,686,359	1,926,857
2022 Cash Draw from Capitalization Grants	27,631,000				
2022 State Match (20% of Cash Draws)	5,526,200				
2022 100% State Fund Disbursements	131,686,359				
Total Disbursements Loan, Admin, Fed and State	166,863,222				
Percentage of Cash Draw from Capitalization Grants to Total Disbursements	<u>78.55%</u>				
Admin Calculation	6.09%				