



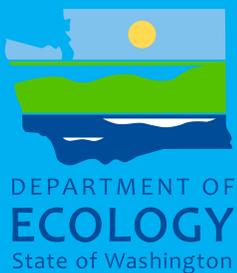
# Annual Report

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

For State Fiscal Year 2018  
July 1, 2017 - June 30, 2018

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

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Water Quality Program - Financial Management Section  
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# Executive Summary

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

As of June 30, 2018, Ecology's CWSRF program had received a total \$748,333,460 in U.S. Environmental Protection Agency (EPA) capitalization grants. Since the inception of the program in 1988, Ecology has made net binding loan commitments totaling \$1,831,385,759.

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 2018 (SFY18) Intended Use Plan (IUP) and the activities and obligations under the CWSRF program. This report describes the progress made toward program goals, the financial status of the CWSRF, and compliance with federal CWSRF requirements during SFY18 (July 1, 2017, through June 30, 2018).

The SFY18 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 21, 2016. 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 2018 Water Quality Financial Assistance* Publication #18-10-008. 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 59 applications for over \$203 M in loans for the SFY18 funding.

Ecology used the Federal Fiscal Year (FFY) 2017 appropriation of \$23,056,000 as the capitalization grant for the SFY18 IUP. Ecology set the SFY18 CWSRF program capacity at \$115 M. In addition to the EPA capitalization grant, CWSRF program funds came from a required state match of 20 percent of the grant (\$4,611,200), principal repayments, and interest and investment earnings.

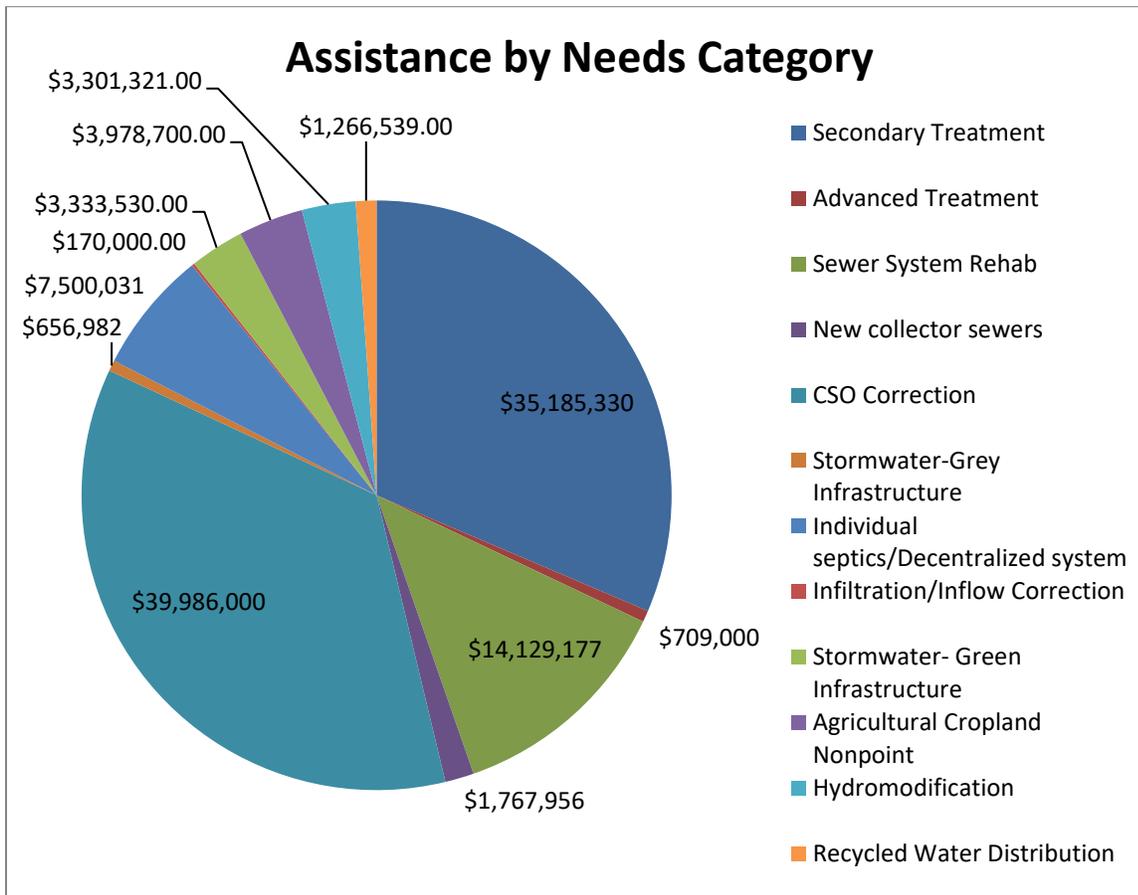
For SFY18, Ecology issued binding commitments for 35 projects totaling \$111,984,556. The weighted interest for these agreements is 1.314 percent (53 percent of the market rate for tax-exempt municipal bonds). Of these binding commitments, \$3,202,886 was provided in the form of forgivable principal (loans that do not have to be repaid). The FFY17 capitalization grant (cap grant) set a minimum of \$2,305,600 and maximum of \$9,222,400 for forgivable principal loans.

The FFY17 capitalization grant required Ecology to award 10 percent of the federal cap grant (\$2,305,600) to projects or project elements that fit within one or more of the Green Project Reserve (GPR) categories. These categories include:

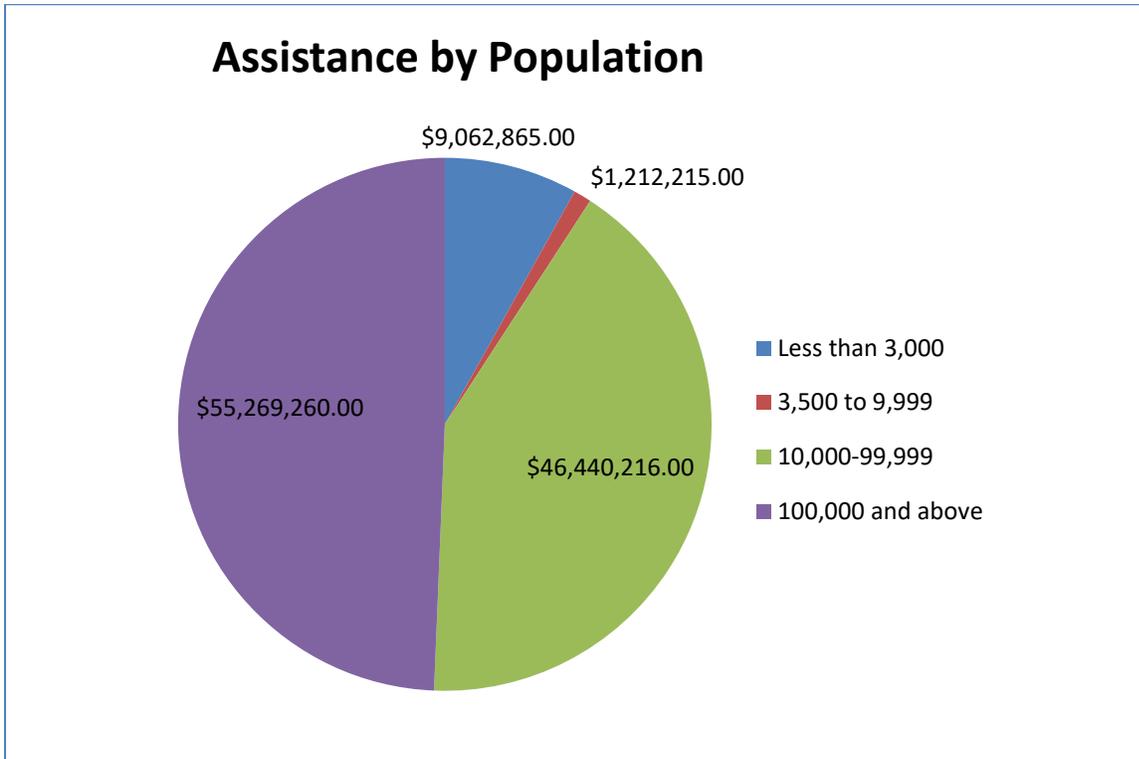
- environmentally innovative.
- water efficiency.
- energy efficiency.
- green infrastructure.

Ecology awarded \$16,062,321 or 70 percent of the cap grant to GPR projects or project elements, easily meeting this requirement.

The following graph shows assistance provided to each water quality needs category. A total of 83 percent of the funds in SFY18 are being used for Clean Water Act (CWA) Section 212 projects (wastewater projects) and 17 percent for CWA Section 319 (nonpoint activity projects). 47 percent are categorized as CWA Section 320 projects that are within the National Estuary Program boundary.



The following graph shows the assistance provided across population of recipient categories. Half or 49 percent of the CWSRF funds supported projects in communities within the population category of 100,000 or above.



# 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, sound management, and high degree of accountability.

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

## Sources of funds

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

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

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

## Uses of funds

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

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

Ecology manages the CWSRF along with the state-funded Centennial Clean Water Program (Centennial) and the CWA Section 319 Nonpoint Source Grant Program (Section 319). Ecology makes every attempt to integrate and streamline the three funding programs. This approach provides significant program savings and efficiencies for Ecology, its clients, and its stakeholders. Beginning with the SFY16 funding cycle, Ecology added state funding for stormwater projects through the Stormwater Financial Assistance Program (SFAP) into its combined water quality funding process.

Ecology manages the Water Pollution Control Revolving Admin (WPCRA) account. This account is for program administrative activities to manage the CWSRF program.

## **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 FFY17 capitalization grant is administered in the SFY18 funding cycle.

## **What's in this report**

This report discusses how Ecology administered the CWSRF FFY17 capitalization grant, state match, and principal and interest repayments during SFY18. 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 FFY17 Capitalization Grant and provides details on how Ecology met them.
- Describes significant changes to the program made during SFY18.
- Presents a Management Discussion and Analysis section providing CWSRF financial statements.
- Includes several exhibits containing the unaudited financial statements of the CWSRF for SFY18.

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

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

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

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

## Goal 1

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

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

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

- Ecology provides project proposals to numerous external stakeholders for review and comment prior to developing the Draft Funding Offer List and Intended Use Plan (Draft IUP) and project priorities. External stakeholders Ecology consults include, but are not limited to, the following:
    - Water Quality Financial Assistance Council (FAC).
    - Puget Sound Partnership.
    - Washington State Conservation Commission.
    - Washington State Department of Health (DOH).
    - Washington State Department of Commerce, Public Works Board.
- 3) Communicate with the Washington State Legislature regarding needs and priorities for funding.
- Ecology sends its Draft IUP to the Legislature for consideration during budget development. The document calls out funding recommendations for priority water quality improvement projects, including wastewater construction needs in small, hardship communities.

## **Goal 2**

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

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

- 1) Involve stakeholders, including the public, in major funding program development, including rules and funding offer lists.
  - Ecology regularly requests comments and feedback from stakeholders and clients on potential changes or improvements to its funding guidelines and application process.
  - In SFY18, Ecology organized and facilitated three meetings with the Financial Assistance Council (FAC) to review and discuss ongoing and emerging CWSRF program issues.
  - Ecology held two meetings of its internal CWSRF Management Oversight Committee. Among the issues discussed were: program status, fund management, cash flow acceleration, and coordination with other funding programs in Washington State.
  - Ecology staff and management regularly consult and coordinate with EPA to ensure its funding programs and funding agreements are meeting all federal requirements, including environmental prerequisites. This includes monthly check in calls with EPA program staff.
  - During SFY18 Ecology developed a Draft IUP for SFY19 offers. Ecology made the Draft IUP available to the public for comment. Ecology held a public meeting in Tacoma to discuss the Draft IUP and sought additional public comment during a 30-day public comment period.
- 2) Conduct two application Evaluators meetings with a focus on consistency and objectivity in scoring.

- Ecology annually trains staff assigned to evaluating applications. Ecology provides staff with tools and resources to help them understand the scoring criteria and what they should be looking for. The training improves consistency and objectivity in application scores.

### **Goal 3**

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

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

- 1) Set aside one-third of Centennial grant for wastewater facility construction projects in small communities where the project would otherwise result in sewer fees for residential ratepayers that are more than two percent of the median household income (MHI).
  - In SFY18 Ecology offered 54 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 SFY1 Ecology offered approximately 2.5 percent of the CWSRF funds to preconstruction projects in small communities. Ecology offered approximately 56 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 SFY18, Ecology identified a reduced SFAP grant match for 2 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 and other federal agencies and other state agencies to ensure effective coordination associated with major federal and state requirements.
  - Ecology coordinates closely with other federal agencies and other state agencies to ensure it is meeting the federal and state environmental prerequisites. Ecology confirms compliance with federal cross cutter requirements for wastewater facility construction projects with federal agencies such as U.S. Fish and Wildlife Service, Bureau of Land Management, U.S. Forest Service, and National Oceanic and Atmospheric

Administration. Ecology also coordinates with the Washington State Department of Archaeology and Historic Preservation and the Washington State Department of Commerce.

- 2) Provide outreach at workshops, conferences, and meetings to disseminate information related to the funding programs and requirements.
  - Ecology organized multiple workshops for applicants and recipients of funding and attended and presented at multiple conferences. At each workshop and in each conference presentation Ecology provided information on meeting major state and federal requirements. Major state and federal requirements discussed at the workshops and conference presentations included, but were not limited to, the following.
    - State Environmental Review Process (SERP).
    - Federal cross cutters.
    - Federal and state cultural resources.
    - American iron and steel
    - Federal and state procurement.
    - Minority Business Enterprise/Women Business Enterprise.
    - Davis-Bacon.
    - Growth Management Act.
- 3) Conduct four annual funding applicant workshops.
  - Ecology held applicant workshops for the SFY18 cycle across the state on August 17, 18, 24, and 25, 2016.
- 4) Conduct two annual funding recipient workshops.
  - Ecology held recipient workshops in Tacoma and Moses Lake in July 2017 for the SFY18 recipients to learn grant and loan management requirements.
- 5) Maintain the Water Quality Grants and Loans webpage at [www.ecy.wa.gov/programs/wq/funding/funding.html](http://www.ecy.wa.gov/programs/wq/funding/funding.html)
  - Ecology regularly updated the grant and loan funding website ([www.ecy.wa.gov/programs/wq/funding/funding.html](http://www.ecy.wa.gov/programs/wq/funding/funding.html)) to keep the public and stakeholders aware of funding and training opportunities and to provide them with related forms and publications.
- 6) Contract with the Rural Community Assistance Corporation (RCAC) to provide special technical assistance for small communities.
- 7) Provide directed technical assistance to small hardship communities with wastewater facility needs through an interagency agreement with Commerce to fund the Small Communities Initiative (SCI).
- 8) Assist with planning and participate in the annual Infrastructure Assistance Coordinating Council (IACC) conference. Ecology is an IACC member, and an Ecology staff member is

Vice Chair. Funding agency representatives work to coordinate the infrastructure funding programs to enable sharing information and problem solving.

- The IACC hosted its annual conference October 23-25, 2017, where several Ecology staff presented information on the financial assistance programs. Ecology staff also participated in technical assistance (Tech Team) meetings to assist local communities in developing plans for specific infrastructure projects.

## Goal 5

Provide sound financial management of the funding programs and projects.

### **Objectives and progress**

- 1) Evaluate the CWSRF annually to ensure the availability of funds in perpetuity as defined by Chapter 173-98 WAC, Use and Limitations of the Water Pollution Control Revolving Fund.
  - Ecology uses the average “11-Bond GO Index” rate available at [http://www.bondbuyer.com/marketstatistics/search\\_bbi.html?details=true](http://www.bondbuyer.com/marketstatistics/search_bbi.html?details=true) to set annual interest rates for CWSRF. Ecology bases rates on the average bond rate for the period 30 to 60 days prior to the beginning of a new funding cycle. Ecology sets interest rates at either 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 SFY17 were:
    - .7 percent for a five-year loan (30 percent of tax-exempt municipal bonds).
    - 1.5 percent for a 20-year loan (60 percent of tax-exempt municipal bonds).
  - Ecology monitors the CWSRF to ensure that it will be available in perpetuity as required by the CWA. While the CWA does not define perpetuity, Ecology defined perpetuity in Chapter 173-98 WAC as, “*The point at which the water pollution control revolving fund is earning at least fifty percent of the market rate for tax-exempt municipal bonds on its loan portfolio.*” This rate is determined at the same time that the interest rates are set for each funding cycle. For SFY18, our weighted average interest rate on loans was 1.3141%.
- 2) Conduct financial capability assessments on CWSRF loan recipients prior to signing agreements.
  - CWSRF agreements require a dedicated source of funds for repayment of the loan. Dedicated sources of revenue are a general obligation pledge or a revenue pledge. In the event of a CWSRF loan default, state law enables Ecology to withhold any state funds otherwise due to the community and directs that such funds be applied to the indebtedness and deposited into the CWSRF account.
  - Ecology staff conducts a financial capability assessment on each CWSRF loan recipient before finalizing the loan agreement. Staff review information provided by applicants, including audit reports and financial statements. They produce an assessment that includes any recommended special conditions or reporting requirements to include in the agreement. The information obtained for the assessment helps inform Ecology staff for the subsequent funding cycle. The financial capability assessment process continues to improve based on experience evaluating financial indicators and risk factors.

- CWSRF agreements require each borrower to review its rate structure at least annually and update Ecology on the progress in meeting the goals and objectives included in use ordinances, resolutions, and rate studies.
- 3) Coordinate with Ecology's fiscal office on the overall financial management issues.
    - Ecology's CWSRF staff regularly coordinate with Ecology's Fiscal Office staff.
    - The CWSRF program is subject to annual state and federal audits (performance reviews). Ecology is responsive to auditor expectations and readily implements suggestions to improve the CWSRF program.
    - Ecology monitors recipient audit reports and takes action when appropriate.
    - Ecology Financial Managers and Project Managers provide oversight and monitoring of projects to ensure fiscal accountability.
  - 4) Conduct internal workgroup meetings to identify problems, needs and emerging issues.
    - Regional Project Managers meet every other month, and Financial Managers meet monthly to discuss problems, needs, and emerging issues to clarify procedures, ensure consistency and head off any potential problems.
  - 5) Coordinate with advisory groups, councils and other funding agencies and programs.
    - Ecology met with FAC in July 19, 2017, November 15, 2017, March 6, 2018 to review and discuss ongoing and emerging CWSRF and combined financial assistance program issues.
    - Ecology conducted two internal CWSRF Management Oversight Committee meetings in December 18, 2017 and May 24, 2018 to review program status, fund management, and emerging issues.
    - Ecology coordinated with the Community Development Block Grant (CDBG), Department of Health (DOH) and USDA Rural Development (RD) on funding projects.
    - Ecology CWSRF staff participated in the Maximizing Resources in a Coordinated Manner Workgroup. The Maximizing Resources Workgroup is a subgroup of the IACC. It is composed of representatives from most infrastructure funding programs operating in the state. The workgroup meets quarterly to discuss projects needing funding and to develop ways to maximize funding and simplify processes.

# Meeting Key Conditions of the Operating Agreement and Capitalization Grant

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

## Information on loan agreements signed and binding commitments

Ecology entered into binding commitment for 35 CWSRF agreements totaling \$111,984,556 in SFY18. Table 1 lists the nine project totaling \$7,668,151 that declined their funding offer. Table 2 provides information on agreements signed or binding commitments made in SFY18.

**Table 1: Declined Funding Offers**

| <b>Applicant</b>                             | <b>Application Number</b> | <b>Amount</b>         |
|--|---------------------------|-----------------------|
| Bellingham city of - Public Works Department | WQC-2018-BellPW-00054     | \$ (249,181)          |
| Palouse Rock Lake Conservation District      | WQC-2018-PaRoCD-00134     | \$ (130,509)          |
| Riverside town of                            | WQC-2018-Rivers-00198     | \$ (495,000)          |
| San Juan County - Public Works Department    | WQC-2018-SJCoPW-00072     | \$ (69,000)           |
| Yelm city of - Public Works Department       | WQC-2018-YelmPW-00084     | \$ (109,050)          |
| Oak Harbor city of                           | WQC-2018-OakHar-00112     | \$ (2,998,878)*       |
| Carbonado city of                            | WQC-2018-Carbon-00029     | \$ (2,935,258)        |
| Concrete city of                             | WQC-2017-Concre-00046     | \$ (383,405)          |
| Spokane Conservation District                | WQC-2018-SpoCoD-00127     | \$ (297,870)*         |
| <b>Total</b>                                 | <b>9 projects</b>         | <b>\$ (7,668,151)</b> |

\*Declined partial funding .

**Table 2: CWSRF Agreements/Binding Commitments in SFY18**

| Recipient Name        | Application Number    | Loan Number         | Project Title  | Clean Water Needs Category                                   | Total Assistance | Loan Amount  | Forgivable Loan Amount | Interest Rate | Term | Binding Commitment Date |
|-----------------------|-----------------------|---------------------|--|--|------------------|--------------|------------------------|---------------|------|-------------------------|
| Bingen town of        | WQC-2018-Bingen-00118 |                     | Wastewater Collection and Treatment Facility Improvements  | IIIA Infiltration and Inflow                                 | \$ 170,000       | \$ 85,000    | \$ 85,000              | 1.5%          | 20   | 2/23/2018               |
| Carbonado town of     | WQC-2018-Carbon-00029 | EL180267            | Carbonado Sewer System Replacement Project (Construction)  | IIIB - Sewer System Rehabilitation                           | \$ 2,935,258     | \$ 2,935,258 |                        | 1.0%          | 20   | 2/23/2018               |
| Brewster, City of     | WQC-2018-Brewst-00217 |                     | City of Brewster General Sewer Plan                        | IIIB - Sewer System Rehabilitation                           | \$ 223,000       | \$ 111,500   | \$ 111,500             | 1.5%          | 20   | 2/23/2018               |
| Electric City city of | WQC-2018-Electr-00208 |                     | Stormwater Plan  | VII-D Stormwater   | \$ 19,250        | \$ 19,250    |                        | 1.5%          | 20   | 2/23/2018               |
| Tonasket city of      | WQC-2018-Tonask-00145 |                     | Parry's Acres Sewer System Rehabilitation                  | IIIB - Sewer System Rehabilitation                           | \$ 235,266       | \$ 235,266   |                        | 1.1%          | 20   | 2/23/2018               |
| Tonasket city of      | WQC-2018-Tonask-00124 |                     | Tonasket Stormwater Plan                                   | VII-D Stormwater   | \$ 13,070        | \$ 13,070    |                        | 0.7%          | 5    | 2/23/2018               |
| Morton city of        | WQC-2018-Morton-00014 |                     | Morton WWTF and Lift Station Improvements                  | I - Secondary Treatment                                      | \$ 4,015,379     | \$ 4,015,379 |                        | 1.2%          | 20   | 2/23/2018               |
| Cheney city of        | WQC-2018-Cheney-00191 |                     | City of Cheney Purple Pipe to Parks and Playfields Project | 50-II Advanced Treatment; 50-X - Recycled Water Distribution | \$ 1,418,000     | \$ 709,000   | \$ 709,000             | 0.7%          | 5    | 2/23/2018               |
| Soap Lake city of     | WQC-2018-SoaLak-00015 | EL180494 / EF180495 | Sewer Replacement Project                                  | IIIB - Sewer System Rehabilitation                           | \$ 68,880        | \$ 34,440    | \$ 34,440              | 1.5%          | 20   | 2/23/2018               |

| Recipient Name   | Application Number                          | Loan Number         | Project Title  | Clean Water Needs Category                    | Total Assistance | Loan Amount  | Forgivable Loan Amount | Interest Rate | Term | Binding Commitment Date |
|--|---|---------------------|--|---|------------------|--------------|------------------------|---------------|------|-------------------------|
| Craft 3  | WQC-2016-Craft3-00376/WQC-2018-TPCoHD-00146 | EL180359 / EF180360 | Expansion of regional septic loan program for water quality improvement  | VII-L - Decentralized Sewage Treatment        | \$ 7,000,031     | \$ 5,500,031 | \$1,500,000            | 0.7%          | 5    | 2/23/2018               |
| Long Beach city of                                       | WQC-2018-LongBe-00128                       | EL180439 / EF180440 | Long Beach Regional Biosolids Treatment and Disposal Engineering Report  | I - Secondary Treatment                       | \$ 50,000        | \$ 25,000    | \$ 25,000              | 0.7%          | 5    | 2/23/2018               |
| Main Street Sewer District                               | WQC-2018-MainSt-00216                       | EL180445 / EF180446 | Main Street Sewer District (MSSD) General Sewer Plan and Facilities Plan | I - Secondary Treatment                       | \$ 75,000        | \$ 37,500    | \$ 37,500              | 0.7%          | 5    | 2/23/2018               |
| Warden, City of  | WQC-2018-Warden-00207                       | EL190078            | West Warden Collection System Extension                                  | IVA - New Collector Sewers and appurtenances. | \$ 1,017,956     | \$ 1,017,956 |                        | 1.2%          | 20   | 2/23/2018               |
| Mason County - Utilities and Waste Management Department | WQC-2018-MaCoUW-00136                       |                     | Belfair Sewer Old Belfair Highway Collection System                      | IVA - New Collector Sewers and appurtenances. | \$ 750,000       | \$ 375,000   | \$ 375,000             | 1.5%          | 20   | 2/23/2018               |
| Odessa town of   | WQC-2018-Odessa-00235                       | EL190011 / EF190012 | Town of Odessa General sewer Plan  | I - Secondary Treatment                       | \$ 75,000        | \$ 37,500    | \$ 37,500              | 0.7%          | 5    | 2/23/2018               |
| Othello city of  | WQC-2018-Othell-00227                       |                     | City Of Othello Wastewater Facility Plan                                 | I - Secondary Treatment                       | \$ 375,750       | \$ 187,875   | \$ 187,875             | 0.7%          | 5    | 2/23/2018               |

| Recipient Name                                 | Application Number                          | Loan Number         | Project Title   | Clean Water Needs Category | Total Assistance | Loan Amount   | Forgivable Loan Amount | Interest Rate | Term | Binding Commitment Date |
|--|---|---------------------|---|----------------------------|------------------|---------------|------------------------|---------------|------|-------------------------|
| Port Orchard city of - Public Works Department | WQC-2018-PoOrPW-00107                       |                     | Johnson Creek Daylighting Project                               | VII-K – Hydro-modification | \$ 70,640        | \$ 70,640     |                        | 1.5%          | 20   | 2/23/2018               |
| Port Orchard city of - Public Works Department | WQC-2018-PoOrPW-00206                       |                     | Port Orchard Downtown Basin Stormwater Plan                     | VII-D Stormwater           | \$ 54,210        | \$ 54,210     |                        | 1.5%          | 20   | 2/23/2018               |
| Lynden city of - Public Works Department       | WQC-2018-LyndPW-00044                       |                     | Pepin Creek/Double Ditch Creek Realignment - Bank Stabilization | VII-K – Hydro-modification | \$ 2,402,593     | \$ 2,402,593  |                        | 1.5%          | 20   | 2/23/2018               |
| Lynden city of - Public Works Department       | WQC-2018-LyndPW-00026                       |                     | Lynden WWTP Outfall Replacement                                 | I - Secondary Treatment    | \$ 1,427,234     | \$ 1,427,234  |                        | 1.5%          | 20   | 2/23/2018               |
| Oak Harbor city of                             | WQC-2016-OakHar-00240/WQC-2018-OakHar-00112 | EL180231            | City of Oak Harbor Wastewater Treatment Plant                   | I - Secondary Treatment    | \$ 29,124,301    | \$ 29,124,301 |                        | 1.2%          | 20   | 2/23/2018               |
| Royal City city of                             | WQC-2018-RoyalC-00169                       | EL180369 / EF180370 | Water Reclamation Facility UV Disinfection System               | I - Secondary Treatment    | \$ 42,666        | \$ 21,333     | \$ 21,333              | 1.5%          | 20   | 2/23/2018               |

| Recipient Name                                 | Application Number   | Loan Number | Project Title   | Clean Water Needs Category                            | Total Assistance | Loan Amount  | Forgivable Loan Amount | Interest Rate | Term | Binding Commitment Date |
|--|--|-------------|---|---|------------------|--------------|------------------------|---------------|------|-------------------------|
| Wenatchee city of                              | WQC-2018-Wenatc-00154 (reapply from WQC-2017-Wenatc-00056) |             | Peachey Street Basin Water Quality Retrofit                             | VI - Storm Sewers                                     | \$ 238,750       | \$ 238,750   |                        | 1.5%          | 20   | 2/23/2018               |
| Bremerton city of - Public Works and Utilities | WQC-2018-BremPW-00117                                      | EL180442    | Oyster Bay Beach Sewer Upgrades - OB-2 to OB-1                          | IIIB - Sewer System Rehabilitation                    | \$ 3,800,000     | \$ 3,800,000 |                        | 1.5%          | 20   | 2/23/2018               |
| Sequim city of - Public Works Department       | WQC-2018-SequPW-00129                                      |             | W. Fir Street Sewer/Storm/Reclaimed Water Improvements                  | IIIB - Sewer System Rehabilitation; VI - Storm Sewers | \$ 836,465       | \$ 769,715   | \$ 66,750              | 1.4%          | 20   | 2/23/2018               |
| Bellingham city of - Public Works Department   | WQC-2018-BellPW-00200                                      | EL180465    | Squalicum Creek Reroute Water Quality and Biotic Improvements - Phase 4 | VII-K - Hydromodification                             | \$ 828,088       | \$ 828,088   |                        | 1.5%          | 20   | 2/23/2018               |
| Bellingham city of - Public Works Department   | WQC-2018-BellPW-00028                                      |             | Horton & West Bakerview Lift Station Improvements                       | IIIB - Sewer System Rehabilitation                    | \$ 1,737,640     | \$ 1,737,640 |                        | 1.5%          | 20   | 2/23/2018               |
| Bellingham city of - Public Works Department   | WQC-2018-BellPW-00027                                      | EL190008    | Roeder Lift Station Improvements  | IIIB - Sewer System Rehabilitation                    | \$ 4,418,760     | \$ 4,418,760 |                        | 1.5%          | 20   | 2/23/2018               |

| Recipient Name                                     | Application Number     | Loan Number | Project Title  | Clean Water Needs Category             | Total Assistance     | Loan Amount          | Frogivable Loan Amount | Interest Rate | Term | Binding Commitment Date |
|--|------------------------|-------------|--|--|----------------------|----------------------|------------------------|---------------|------|-------------------------|
| Tacoma city of - Environmental Services Department | WQC-2018-TacoES-00100  |             | Madison District Green Infrastructure Project                          | VII-D Stormwater                       | \$ 3,247,000         | \$ 3,247,000         |                        | 0.7%          | 5    | 2/23/2018               |
| Spokane city of                                    | WQC-2018-Spokane-00016 | EL180499    | CSO Basin 33-1 Control Facility  | V - CSO Correction                     | \$ 13,454,000        | \$ 13,454,000        |                        | 1.5%          | 20   | 2/23/2018               |
| Spokane city of                                    | WQC-2018-Spokane-00123 | EL180500    | CSO Basin 26 Control Facility  | V - CSO Correction                     | \$ 26,532,000        | \$ 26,532,000        |                        | 1.5%          | 20   | 2/23/2018               |
| Kitsap County - Public Works                       | WQC-2018-KiCoPW-00108  | EL180444    | Kingston Recycled Water Project  | X - Recycled Water Distribution        | \$ 557,529           | \$ 557,529           |                        | 0.7%          | 5    | 2/23/2018               |
| Spokane Conservation District                      | WQC-2018-SpoCoD-00127  |             | Farmed Smart Certification and Direct Seed Loan Implementation Program | VII-A - Agricultural Cropland nonpoint | \$ 3,978,700         | \$ 3,978,700         |                        | 1.5%          | 20   | 2/23/2018               |
| Spokane Conservation District                      | WQC-2018-SpoCoD-00066  | EL180462    | Spokane County On Site Septic Program: Phase II                        | VII-L - Decentralized Sewage Treatment | \$ 500,000           | \$ 500,000           |                        | 1.5%          | 20   | 2/23/2018               |
| South Bend city of                                 | WQC-2018-SoBend-00093  |             | Central Avenue Sewer Line Replacement Project                          | IIIB - Sewer System Rehabilitation     | \$ 292,140           | \$ 280,152           | \$ 11,988              | 1.2%          | 20   | 2/23/2018               |
|  |                        |             |  | <b>Total Binding Commitments</b>       | <b>\$111,984,556</b> | <b>\$108,781,670</b> | <b>\$3,202,886</b>     |               |      |                         |

## Binding commitments

Ecology is required to make binding commitments for 120 percent of the federal grant payment within one year following receipt. Table 3 shows that Ecology easily met this requirement for SFY18.

**Table 3: Binding Commitments with Respect to Federal Grant Payments in SFY18**

|   |               |
|---|---------------|
| Capitalization Grant Received During SFY17  | \$23,056,000  |
| Binding Commitments Required Within One Year of Receipt                             | \$27,667,200  |
| Binding Commitments at the End of SFY18   | \$111,984,556 |
| <b>Percent of Capitalization Grant under Binding Commitment at the End of SFY18</b> | <b>485%</b>   |

## Timely and expeditious use of funds

EPA requires Ecology to make use of federal funds received and the state match in a “timely and expeditious” manner. EPA’s Memorandum #SRF 99-05 requires the CWSRF program to execute binding commitments at least equal to the amount of funds available in the program, within one year of that fund availability. The memo explains what is meant by timely and expeditious. Table 4 shows the cumulative funds received, cumulative principal and interest collected, and the cumulative administration expenditures through SFY18 in addition to the cumulative loan obligations through SFY18. The table shows that Ecology has committed more than 100 percent of the cumulative funds available through SFY18.

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

|   | Base + Title II | ARRA          | Totals           |
|---|-----------------|---------------|------------------|
| Federal Funds Received (cumulative through SFY17)                       | \$ 680,181,560  | \$ 68,151,900 | \$ 748,333,460   |
| State Match (cumulative through SFY18)                                  | 136,037,427     |               | 136,037,427      |
| Principal and Interest Collected (cumulative through SFY18)             | 925,404,157     |               | 925,404,157      |
| State Treasurer’s Office Interest (cumulative through SFY18/cash basis) | 39,731,958      |               | 39,731,958       |
| Administration 4% (cumulative through SFY18)                            | (26,435,638)    | (2,726,076)   | (29,161,714)     |
| Total Funds (cumulative through SFY18)                                  | 1,754,919,464   | 65,425,824    | 1,820,345,288    |
| Loan Obligations (cumulative through SFY18)                             | \$1,765,936,110 | \$ 65,449,649 | \$ 1,831,385,759 |
| <b>Loans as % of Funds Available</b>                                    |                 |               | <b>100.61%</b>   |

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

## **State match**

The 2017-19 Biennial budget authorized the State Treasurer to transfer \$10 million for CWSRF State match. The legislation authorized the match as a Treasurer's cash transfer from the State Taxable Building Construction account into account 727. At the beginning of SFY17 and SFY18, the State Treasurer deposited \$6 million and \$4.6 million respectively into the CWSRF account. These funds are sufficient to meet the match requirements for SFY17 and SFY18.

## Green Project Reserve

The FFY17 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 FFY17 grant totaled \$23,056,000 which set the GPR requirement at \$2,305,600.

In SFY18 Ecology made specific offers of \$17,062,352 M to the eight GPR-eligible projects (Table 5). These funds equal seventy four percent of the cap grant, meeting the ten percent requirement.

**Table 5: Green Project Reserve (GPR) Offers in SFY18**

| Application Number                          | Agreement Number  | Recipient Name                               | Project Title   | GPR Category   | Standard Loan Amount | Forgivable Principal Loan Amount |
|---|-------------------|--|---|--|----------------------|----------------------------------|
| WQC-2018-BellPW-00200                       | EL180465          | Bellingham city of - Public Works Department | Squalicum Creek Reroute Water Quality and Biotic Improvements - Phase 4 | 1.2-7 Establishment or restoration of permanent riparian buffers, floodplains, wetlands and other natural features | \$ 828,088           |                                  |
| WQC-2016-Craft3-00376/WQC-2018-TPCoHD-00146 | EL180359/EF180360 | Craft 3                                      | Expansion of regional septic loan program for water quality improvement | 4.2-6 Decentralized wastewater treatment solutions to existing deficient or failing onsite wastewater systems.     | \$ 5,500,031         | \$ 1,500,000                     |
| WQC-2018-LyndPW-00044                       |                   | Lynden city of - Public Works Department     | Pepin Creek/Double Ditch Creek Realignment - Bank Stabilization         | 1.2-7 Establishment or restoration of permanent riparian buffers, floodplains, wetlands and other natural features | \$ 2,402,593         |                                  |

| Application Number    | Agreement Number | Recipient Name                                     | Project Title  | GPR Category  | Standard Loan Amount | Forgivable Principal Loan Amount |
|-----------------------|------------------|--|--|---|----------------------|----------------------------------|
| WQC-2018-PoOrPW-00107 |                  | Port Orchard city of - Public Works Department     | Johnson Creek Daylighting Project                                      | 1.2-7<br>Establishment or restoration of permanent riparian buffers, floodplains, wetlands and other natural features | \$ 70,640            |                                  |
| WQC-2018-SequPW-00129 |                  | Sequim city of - Public Works Department           | W. Fir Street Sewer/Storm/Reclaimed Water Improvements                 | 1.2-1<br>Implementation of green streets  | \$ 85,500            | \$ 28,500                        |
| WQC-2018-SpoCoD-00066 | EL180462         | Spokane Conservation District                      | Spokane County On Site Septic Program: Phase II                        | 4.2-6<br>Decentralized wastewater treatment solutions to existing deficient or failing onsite wastewater systems.     | \$ 400,000           |                                  |
| WQC-2018-SpoCoD-00127 |                  | Spokane Conservation District                      | Farmed Smart Certification and Direct Seed Loan Implementation Program | Needs a business case   | \$ 3,000,000         |                                  |
| WQC-2018-TacoES-00100 |                  | Tacoma city of - Environmental Services Department | Madison District Green Infrastructure Project                          | 1.2-1<br>Implementation of green streets  | \$ 3,247,000         |                                  |
|                       |                  |  | <b>Total</b>   | <b>\$ 17,062,352</b>  | <b>\$ 15,533,852</b> | <b>\$ 1,528,500</b>              |

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

The FFY17 grant from EPA specifies that Ecology must use ten percent of the grant to provide additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants. The FFY17 grant totaled \$23,056,000 which set the ASR requirement with a minimum of \$2,305,600 and maximum of \$9,222,400. Ecology meets the requirement by providing forgivable principal loans to wastewater treatment preconstruction projects that demonstrate financial hardship and to GPR-eligible projects.

In SFY18 Ecology provided forgivable principal loans to 13 applicants totaling \$3,202,886.00, exceeding the ten percent requirement. Table 6 summarizes the recipients that received forgivable principal loans for their projects.

**Table 6: Additional Subsidization via Forgivable Principal Loan Agreements and Meeting the Sustainability Requirements in SFY18**

| Application Number    | Agreement Number | Recipient Name             | Project Title  | Forgivable Principal Loan | ASR Sustainability Criterion    | Could the recipient afforded the project without additional subsidization? |
|-----------------------|------------------|----------------------------|--|---------------------------|---------------------------------|--|
| WQC-2018-MainSt-00216 | EF180446         | Main Street Sewer District | Main Street Sewer District (MSSD) General Sewer Plan and Facilities Plan | \$ 37,500                 | Sustainable Planning and Design | Yes  |
| WQC-2018-Odessa-00235 | EF190012         | Odessa town of             | Town of Odessa General sewer Plan  | \$ 37,500                 | Sustainable Planning and Design | Yes  |
| WQC-2018-LongBe-00128 | EF180440         | Long Beach city of         | Long Beach Regional Biosolids Treatment and Disposal Engineering Report  | \$ 25,000                 | Sustainable Planning and Design | Yes  |
| WQC-2018-SoaLak-00015 | EF180495         | Soap Lake city of          | Sewer Replacement Project  | \$ 34,440                 | Sustainable Planning and Design | No   |
| WQC-2018-SoBend-00093 | EF180497         | South Bend city of         | Central Avenue Sewer Line Replacement Project                            | \$ 11,988                 | Sustainable Planning and Design | No   |

| Application Number                          | Agreement Number | Recipient Name   | Project Title   | Forgivable Principal Loan | ASR Sustainability Criterion    | Could the recipient afforded the project without additional subsidization? |
|---|------------------|--|---|---------------------------|---------------------------------|--|
| WQC-2018-RoyalC-00169                       | EF180370         | Royal City city of                                       | Water Reclamation Facility UV Disinfection System                       | \$ 21,333                 | Sustainable Planning and Design | Yes  |
| WQC-2018-Brewst-00217                       |                  | Brewster, City of  | City of Brewster General Sewer Plan                                     | \$ 111,500                | Sustainable Planning and Design | Yes  |
| WQC-2018-SequPW-00129                       | EF180491         | Sequim city of - Public Works Department                 | W. Fir Street Sewer/Storm/Reclaimed Water Improvements                  | \$ 66,750                 | Green Project Reserve           | No   |
| WQC-2018-Othell-00227                       |                  | Othello city of  | City Of Othello Wastewater Facility Plan                                | \$ 187,875                | Sustainable Planning and Design | Yes  |
| WQC-2018-Cheney-00191                       |                  | Cheney city of   | City of Cheney Purple Pipe to Parks and Playfields Project              | \$ 709,000                | Sustainable Planning and Design | Yes  |
| WQC-2018-Bingen-00118                       |                  | Bingen town of   | Wastewater Collection and Treatment Facility Improvements               | \$ 85,000                 | Sustainable Planning and Design | Yes  |
| WQC-2018-MaCoUW-00136                       |                  | Mason County - Utilities and Waste Management Department | Belfair Sewer Old Belfair Highway Collection System                     | \$ 375,000                | Sustainable Planning and Design | Yes  |
| WQC-2016-Craft3-00376/WQC-2018-TPCoHD-00146 | EF180360         | Craft 3  | Expansion of regional septic loan program for water quality improvement | \$ 1,500,000              | Green Project Reserve           | Yes  |
|   |                  |  | <b>Total</b>  | <b>\$ 3,202,886</b>       |                                 |  |

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 coresponding capitalization grant. Ecology has provided EPA with backup documentation verifying the amounts disbursed by fiscal year for the FFY10 (CS-53000110), FFY11 (CS-53000111) and FFY12 (CS-53000112) capitalization grants. By the end of SFY18 there were still open agreements for the remaining capitalization grants so Ecology was unable to verify compliance for FFY13, FFY14, FFY15, FFY16, FFY17 and FFY18 until all the agreements are finished spending out and closed.

## Assistance to hardship communities

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

**Table 7: Hardship Assistance Provided in SFY18**

| Application Number    | Loan Number | Recipient         | Project Title   | Hardship Level | Standard Loan | Interest Rate | Term | Forgivable Principal Loan | Centennial Grant |
|-----------------------|-------------|-------------------|---|----------------|---------------|---------------|------|---------------------------|------------------|
| WQC-2018-Carbon-00029 | EL180267    | Carbonado town of | Carbonado Sewer System Replacement Project (Construction) | Elevated       | \$ 2,935,258  | 1.0%          | 20   |                           | \$ 4,747,118     |
| WQC-2018-Tonask-00145 |             | Tonasket city of  | Parry's Acres Sewer System Rehabilitation                 | Moderate       | \$ 235,266    | 1.1%          | 20   |                           | \$ 175,134       |

| Application Number                          | Loan Number       | Recipient                                | Project Title  | Hardship Level | Standard Loan        | Interest Rate | Term | Forgivable Principal Loan | Centennial Grant    |
|---|-------------------|--|--|----------------|----------------------|---------------|------|---------------------------|---------------------|
| WQC-2018-Morton-00014                       |                   | Morton city of                           | Morton WWTF and Lift Station Improvements              | Elevated       | \$ 4,015,379         | 1.2%          | 20   |                           | \$ 3,402,721        |
| WQC-2018-SoaLak-00015                       | EL180494/EF180495 | Soap Lake city of                        | Sewer Replacement Project                              | Moderate       | \$ 34,440            | 1.5%          | 20   | \$ 34,440                 |                     |
| WQC-2018-SoBend-00093                       |                   | South Bend city of                       | Central Avenue Sewer Line Replacement Project          | Elevated       | \$ 280,152           | 1.2%          | 20   | \$ 11,988                 | \$ 285,760          |
| WQC-2018-Warden-00207                       | EL190078          | Warden, City of                          | West Warden Collection System Extension                | Moderate       | \$ 1,017,956         | 1.2%          | 20   |                           | \$ 501,044          |
| WQC-2018-SequPW-00129                       |                   | Sequim city of - Public Works Department | W. Fir Street Sewer/Storm/Reclaimed Water Improvements | Moderate       | \$ 769,715           | 1.4%          | 20   | \$ 66,750                 | \$ 75,540           |
| WQC-2016-OakHar-00240/WQC-2018-OakHar-00112 | EL180231          | Oak Harbor city of                       | City of Oak Harbor Wastewater Treatment Plant          | Moderate       | \$ 29,124,301        | 1.2%          | 20   |                           |                     |
|   |                   |  |  |                | <b>\$ 38,412,467</b> |               |      | <b>\$ 113,178</b>         | <b>\$ 9,187,317</b> |

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

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

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

# Clean Water Benefits Report

EPA requires Ecology to provide either an environmental benefits “one-pager” for every loan signed during the fiscal year or a summary report. Table 2 is a summary of each loan executed. Table 8 is a summary report from the Clean Water Benefits Reporting (CBR) database. This output report summarizes the clean water benefits for the loans Ecology executed in SFY18.

**Table 8: Washington CW Benefits Summary Report for Projects with Water Uses Reporting**

|                                   | Loans                         |            | Projects                      |                            |               | Borrowers                      |                     |                |
|-----------------------------------|-------------------------------|------------|-------------------------------|----------------------------|---------------|--------------------------------|---------------------|----------------|
|                                   | Assistance Dollars (millions) | Loan Count | Assistance Dollars (millions) | Subsidy Dollars (millions) | Project Count | Facility Population (millions) | Facility Flow (MGD) | Borrower Count |
| Total Records                     | 111                           | 35         | 111.0                         |                            | 35            | 1.3                            | 3                   | 28             |
| Records with Benefits Data        | 110.7                         | 34         | 110.7                         | 48.3                       | 34            | 1.3                            | 3                   | 27             |
| Impacting Human Health            | 97.2                          | 21         | 97.2                          | 42.4                       | 21            | 1.2                            | 3                   | 18             |
|                                   | 88%                           | 62%        | 88%                           |                            | 62%           | 12,757*                        |                     | 67%            |
| With Impaired Waterbody           |                               |            | 86.0                          | 38.3                       | 16            | 1.0                            | 0                   | 12             |
|                                   |                               |            | 78%                           |                            | 47%           | 11,633*                        |                     | 44%            |
| With Water Body Meeting Standards |                               |            | 5.2                           | 2.4                        | 6             |                                |                     |                |
| To Improve Water Quality          |                               |            | 100.6                         | 44.0                       | 22            |                                |                     |                |
| To Maintain Water Quality         |                               |            | 10.1                          | 4.3                        | 12            |                                |                     |                |
| To Achieve Compliance             |                               |            | 41.5                          | 18.1                       | 6             |                                |                     |                |
| To Maintain Compliance            |                               |            | 55.4                          | 25.1                       | 22            |                                |                     |                |

\*population served per million

# CWSRF Program Changes and Development

## CWSRF Administrative Charge

On May 1, 2013, the Governor signed SHB 1141, which amended RCW 90.50A.090 establishing the water pollution control revolving fund administrative account. On December 21, 2013, Ecology adopted an amendment to Chapter 173-98 Washington Administrative Code (WAC), *Uses and Limitations of the Water Pollution Control Revolving Fund* allowing for a one percent charge on loans to be used for administrative costs related to CWSRF. Ecology began applying the charge to all loans entering repayment on or after that date. As of June 30, 2018, the total administrative charge deposited into the Administrative Account (564) totaled \$6,599,626.05. Ecology began using Account (564) to pay for administrative charges totaling \$2,032,356.19 in SFY17. Ecology plans on using Account (564) for ongoing administration costs. Ecology will evaluate the charge each year and determine what the appropriate rate should be to meet our administrative costs without accumulating an excess balance. If the account gets too large, Ecology can transfer funds into Account (727) to fund projects.

Because Account (564) contains sufficient funds to cover CWSRF program administration, Ecology has not requested the full 4% of the Capitalization Grant as allowed by the CWA beginning with the FFY17 Capitalization Grant. EPA allows State's to "bank" any unused administration funds if it is documented in the IUP and Annual Report. This would allow Ecology to use Account (727) for administration expenses up to the banked amount in the future if needed. The table below shows the cumulative banked administrative expenses as of the end of SFY18.

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

|  |               |
|--|---------------|
| Federal Funds Received (Cumulative Projected Through SFY18)            | \$748,333,460 |
| Administration Expenses Allowed (Cumulative Through SFY18)             | \$ 29,934,454 |
| Administration Expended out of Accounty 727 (Cumulative Through SFY18) | \$ 28,736,840 |
| Administration Balance Remaining*                                      | \$ 1,197,614  |
| Administration Expenses Banked (Cumulative Through SFY18)              | \$ 772,740    |

\* Note: \$424,874 of Admin will be expended in SFY 2019

## Drawing funds from the Capitalization Grant

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

For SFY18, the agency received the appropriate matching funds in the agency's budget. Having the match readily available allows Ecology to expedite spending of the capitalization grants.

During SFY18, Ecology was able to expend and close all the capitalization grants except the administration funds. The remaining balances are \$275,373.92 for FFY16 and \$149,500 for FFY17.

## **Fund Management and Health of the Account**

The CWSRF account balance had grown over the years. But due to acceleration of the account and cash flow monitoring, Ecology is starting to see the cash balance reducing. By the end of SFY18, the cash balance dropped to \$121M. This is over a 35% drop from where it was at the end of SFY16 (\$189M). Historically, quarterly revenue into the account from repayments and federal grants has outpaced quarterly expenditures. Ecology has developed a CWSRF cash flow model that projects the expected availability of funds from principal and interest income compared to loan disbursements on projects over time. Ecology updates its cash flow model quarterly and will use it to make future decisions related to appropriation requests and funds available each funding cycle. Ecology’s goal is to get the cash balance down to approximately \$40M and maintain that balance over time.

## **Equivalency Projects**

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

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

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

In prior years, Ecology met the equivalency requirements by applying them to certain types of projects or applicants. EPA issued a memo stating that the same group of projects must comply with all the equivalency requirements. Ecology revised it’s approach to meeting equivalency and now applies it to wastewater facility Step 3 (Construction) and Step 4 (Design and Construction) projects for recipients with a population of 25,000 or greater. Table 9 lists the SFY18 projects who met these requirements.

**Table 10: SFY18 Equivalency Projects**

| <b>Recipient Name</b>                          | <b>Application Number</b> | <b>Agreement Number</b> | <b>Final Loan Amount</b> |
|--|---------------------------|-------------------------|--------------------------|
| Bellingham city of - Public Works Department   | WQC-2018-BellPW-00028     |                         | \$ 1,737,640.00          |
| Bellingham city of - Public Works Department   | WQC-2018-BellPW-00027     | EL190008                | \$ 4,418,760.00          |
| Bremerton city of - Public Works and Utilities | WQC-2018-BremPW-00117     | EL180442                | \$ 3,800,000.00          |
| Spokane city of                                | WQC-2018-Spokane-00016    | EL180499                | \$ 13,454,000.00         |
| Spokane city of                                | WQC-2018-Spokane-00123    | EL180500                | \$ 26,532,000.00         |
|  |                           | <b>Total</b>            | <b>\$ 49,942,400</b>     |

## **Integrated Revenue Management System (IRMS)**

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

Last November we identified Microsoft Dynamics 365 (MS Dynamics) as our platform (technology). In addition, we selected AKA as our vendor partner to implement this solution.

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

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

The project is being funded with \$2.2 million dollars of program contributions including:

- Cost Allocation
- Water Quality- Water Pollution Control Admin Fund (564)

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

**DRAFT/UNAUDITED**

- Used for Loan Replacement only, not other functionality
- Solid Waste Management-Biosolids Permit Fund
- Hazardous Waste and Toxics Reduction-State Toxics Fund

# 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, 2018 and 2017. It is a required supplement to these financial statements. It describes and analyzes the financial position of the CWSRF program, providing an overview of the CWSRF's activities. The State of Washington Department of Ecology (Ecology) is responsible for the content of these financial statements. The MD&A provides readers with a summary of the issues and information Ecology management hopes is useful to the reader.

## The CWSRF program

The CWSRF Account was established to provide financial assistance in the form of low-interest loans to local governments and tribes for high priority water quality projects. Ecology receives an annual grant from United States of America Environmental Protection Agency (EPA). The federal fiscal year (FFY) 2017 grant award was \$23,056,000. Ecology matches 20 percent of the grant award with state funds, of \$4,611,200. The funding levels for the CWSRF program for each fiscal year are based on federal appropriations, state legislative appropriations, repayments from past loans, interest on investments, and de-obligated funds. The funding made available for projects in the state fiscal year (SFY) 2018 was \$115M as published in Ecology's Intended Use Plan. CWSRF loan interest rates are between zero and 1.5 percent. This account is for loan activity.

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

## Net Position of the CWSRF

The CWSRF program has no capital assets and no related debt. The total amount of reported net position as of June 30, 2018 is \$1,053,613,044.

## Using this Annual Financial Report

The financial statements included in this annual financial report are those of the CWSRF and the WPCRA. The basic financial statements of the CWSRF and WPCRA are intended to present the financial position, changes in financial position, and cash flows as of the years ended June 30, 2018 and 2017, 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, 2018 and 2017 and the change in their net positions and their cash flows for the years ended.

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

## Overview of Financial Statements

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

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

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

**Table 1**

| Net Position              | June 30,               |                    |                        | June 30,               |                      |
|---------------------------|------------------------|--------------------|------------------------|------------------------|----------------------|
|                           | 2018                   |                    |                        | 2017                   | 2016                 |
|                           | Loan Activity          | Program Activity   | Total Activity         | Loan Activity          | Loan Activity        |
| <b>ASSETS</b>             |                        |                    |                        |                        |                      |
| Cash and cash equivalents | 120,997,582            | 4,707,857          | 125,705,439            | \$144,853,771          | \$189,943,767        |
| Loans receivable          | 937,986,287            |                    |                        | 871,299,096            | 775,487,630          |
| All other assets          | 148,660                | 9,111              | 938,144,059            | 4,783,198              | 8,671,883            |
| <b>Total assets</b>       | <b>1,059,132,530</b>   | <b>4,716,968</b>   | 1,063,849,498          | <b>1,020,936,065</b>   | <b>974,103,280</b>   |
| <b>LIABILITIES</b>        |                        |                    |                        |                        |                      |
| Current liabilities       | 5,519,486              | 146,893            | 5,666,379              | 5,863,556              | 6,885,279            |
| <b>Total liabilities</b>  | <b>5,519,486</b>       | <b>146,893</b>     | <b>5,666,379</b>       | <b>5,863,556</b>       | <b>6,885,279</b>     |
| <b>NET POSITION</b>       |                        |                    |                        |                        |                      |
| Unrestricted              | 1,053,613,044          | 4,570,075          | 1,058,183,119          | 1,015,072,509          | 967,218,001          |
| <b>Total net position</b> | <b>\$1,053,613,044</b> | <b>\$4,570,075</b> | <b>\$1,058,183,119</b> | <b>\$1,015,072,509</b> | <b>\$967,218,001</b> |

## Changes in Net Position

During SFY18 the CWSRF cash decreased by \$23,856,189, as seen on the Statement of Net Position. The decrease in cash is a result of awarding more loans. The State Treasurer's office credited \$1,319,443 in interest to the CWSRF account. The EPA capitalization grant funds provided \$22,931,422, and the State of Washington provided \$ 4,614,200 in matching funds. While cash decreased from SFY17 to SFY18, this is what Ecology expected as a result of it awarding more loans using cash flow acceleration for priority water quality projects throughout the State in 2018.

The change in loans receivable is caused by disbursing new loans in an amount less than receipts on existing loans. Ecology disbursed \$114,285,553 in loans during the year. Ecology received \$61,312,165 in principal payments from borrowers and applied \$3,359,215 in principal forgiveness during the year. Ecology paid \$1,749,702 in administrative expenses to employees, vendors, and for indirect costs.

During fiscal year 2017, the CWSRF cash decreased by \$45,089,996. Borrowers made \$66,226,425 in total loan repayments, including principal and interest.. Ecology disbursed \$144,008,824 in loans during the year. The State Treasurer's Office credited \$1,183,495 in interest to the CWSRF account. Ecology paid \$1,193,876 in administrative expenses to employees, vendors, and for indirect costs. EPA capitalization grant funds provided \$29,829,027 in cash, and the State of Washington provided \$6,000,000 in matching funds.

**Table 2**

|  | June 30,            |                    |                     | June 30,            |                     |
|--|---------------------|--------------------|---------------------|---------------------|---------------------|
|  | 2018                |                    |                     | 2017                |                     |
|  | Loan Activity       | Program Activity   | Total Activity      | Loan Activity       | Loan Activity       |
| <b>Revenues</b>                                      |                     |                    |                     |                     |                     |
| Program revenues:                                    |                     |                    |                     |                     |                     |
| Loan interest income                                 | \$18,320,311        | \$0                | \$18,320,311        | \$14,002,134        | \$12,287,200        |
| General revenues:                                    |                     |                    |                     |                     |                     |
| Investment income                                    | 1,319,443           | 2,297,802          | 3,617,245           | 1,183,495           | 1,343,235           |
| Other Income   | 0                   | 0                  | 0                   | 0                   | 46,881              |
| <b>Total revenues</b>                                | <b>\$19,639,754</b> | <b>\$2,297,802</b> | <b>\$21,937,556</b> | <b>15,185,629</b>   | <b>13,677,316</b>   |
| <b>Expenses</b>                                      |                     |                    |                     |                     |                     |
| Program expenses:                                    |                     |                    |                     |                     |                     |
| Administrative expenses                              |                     | 1,749,702          | 1,749,702           | 1,196,876           | 1,467,697           |
| Principal forgiveness                                | 3,359,215           | 0                  | 3,359,215           | 1,963,274           | 2,138,737           |
| <b>Total expenses</b>                                | <b>3,359,215</b>    | <b>1,749,702</b>   | <b>5,108,917</b>    | <b>3,160,150</b>    | <b>3,606,434</b>    |
| <b>Increase in net position before contributions</b> |                     |                    |                     |                     |                     |
|  | <b>16,280,539</b>   | <b>548,100</b>     | <b>16,828,639</b>   | <b>12,025,479</b>   | <b>10,070,882</b>   |
| <b>Capital contributions:</b>                        |                     |                    |                     |                     |                     |
| EPA capitalization grant                             | 22,931,422          | 0                  | 22,931,422          | 29,829,027          | 62,921,340          |
| State and other contributions                        | 4,614,200           | 0                  | 4,614,200           | 6,000,000           | 6,000,000           |
| Subtotal capital contributions                       | <b>27,545,622</b>   | <b>0</b>           | <b>27,545,622</b>   | <b>\$35,829,027</b> | <b>\$68,921,340</b> |
| <b>Change in net position</b>                        | <b>\$43,826,161</b> | <b>\$548,100</b>   | <b>\$44,374,261</b> | <b>\$47,854,506</b> | <b>\$78,992,222</b> |

**Table 2 Continued**

|   |                        |                    |                        |                        |                      |
|---|------------------------|--------------------|------------------------|------------------------|----------------------|
| <b>Net position - beginning of year, as previously report</b> | 1,015,072,507          | 4,021,974          | 1,019,094,481          | 967,218,001            | 888,225,779          |
| Prior Period Adjustment                                       | (5,358,188)            | 0                  | (5,358,188)            |                        |                      |
| <b>Net position-beginning of year, as restated</b>            | <b>1,009,714,319</b>   | <b>4,021,974</b>   | <b>1,013,736,293</b>   | <b>967,218,001</b>     | <b>888,225,779</b>   |
| <b>Net position - end of year</b>                             | <b>\$1,053,540,480</b> | <b>\$4,570,074</b> | <b>\$1,058,110,554</b> | <b>\$1,015,072,507</b> | <b>\$967,218,001</b> |

## **Income for Fiscal Year 2018**

Net operating income of the CWSRF for SFY18 was \$16,280,539. Operating income or loss includes those amounts earned by the ordinary activities of the program, minus the related expenses. Ordinary activities of the program include interest earned on loans and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment.

Net operating income increases the net position in the program. Other increases to net position include amounts received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In 2018, the CWSRF earned \$22,931,422 in federal funds and \$4,614,200 in state matching funds.

## **Income for Fiscal Year 2017**

Net operating income of the CWSRF for SFY17 was \$12,805,259. Operating income or loss includes those amounts earned by the ordinary activities of the program, minus the related expenses. Ordinary activities of the program include interest earned on loans and interest earned on balances held with the State Treasurer's Office. Related expenses include salaries and benefits, supplies, travel, indirect costs, and equipment.

Net operating income increases the net position in the program. Other increases to net position include amounts received from the EPA capitalization grant and amounts contributed as grant match by the state of Washington. In SFY16 the CWSRF earned \$29,829,027 in federal funds and \$6,000,000 in state matching funds.

## **State Matching Funds**

For SFYs 2017 and 2018, state matching funds came from the State Taxable Building Construction Account. Revenue from that account comes from a combination of bond proceeds and other miscellaneous revenue. CWSRF received a cash match of \$4.6 million in SFY18, \$6 million was received and used in SFY 17.

## **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. SFY18 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 SFY18 (FFY17) the federal capitalization grant was approximately \$27.6 million (including match), which was lower than the previous year. The outlook for ongoing federal funding generally points to reductions in future capitalization grants to the SRF programs. Although capitalization grants are an important source of revenue, the CWSRF has a sound level of repayment and interest income that would sustain the revolving loan fund at a lower level. Ecology uses a cash flow model to project and predict available fund resources each funding year, with a 20-year projected outlook. This model has allowed Ecology to award additional loan funding through available cash resources and includes ongoing repayments, program income, and disbursements. Ecology accounts for possible reductions in the capitalization grant through the model.

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

## **Conclusion**

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

## **Requests for Information**

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

The accompanying notes are an integral part of the financial statements

## 1. Summary of Significant Accounting Policies

### *Reporting Entity*

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

### *Operation of the CWSRF and the Account*

The CWSRF provides loans at reduced interest rates to finance qualified projects for the construction of publicly owned water pollution control facilities, non-point source pollution control projects, and the development and implementation of estuary conservation and management plans. Loans made by the Account must be repaid within 20 years. 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 \$748,333,460 in capitalization grants from 1989 through June 30, 2018. The State match share for that awarded amount is \$136,037,427.

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

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

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

### *Basis of Accounting*

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

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

### **Implementation of New Standards**

For the years ended June 30, 2018 the following GASB standards were adopted, which did not have a material impact on the Account's financial statements:

- Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement establishes standards of accounting and financial reporting for defined benefit other postemployment benefits (OPEB) and defined contribution OPEB that are provided to the employees of state and local governmental employers.

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EXHIBIT 1: Notes to the Financial Statements for FY18**

- Statement No. 81, Irrevocable Split-Interest Agreements. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts - or other legally enforceable agreements - in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.
- Statement No. 85, Omnibus 2017. This Statement addresses practice issues that were identified during implementation and application of certain other GASB Statements. It addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.
- Statement No. 86, Certain Debt Extinguishment Issues. This Statement establishes accounting and financial reporting guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. It also provides guidance relating to prepaid insurance on debt that is extinguished.

For the year ending June 30, 2017 there were not any new standards adopted.

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

### *Cash and Cash Equivalents*

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

### *Loans Receivable*

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

### *Forgivable Principal*

During the June 30, 2012 fiscal year, the federal Appropriations Act of 2011 was passed by Congress. This Act authorized some of the same requirements that were introduced in the American Recovery and Reinvestment Act of 2010. One of these requirements is forgivable principal hardship loans. The maximum forgivable principal loan amount for each hardship recipient is \$5 million. Ecology disbursed \$3,359,215 and \$1,963,274 in forgivable principal loans during the years ended June 30, 2018 and 2017, respectively, which is recognized upon loan closure when final amounts of the project are determined.

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

### *Operating Revenues and Expenses*

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

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

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

### *Use of Estimates in Preparing Financial Statements*

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

### *Reclassifications*

**For comparability, certain 2017 amounts have been reclassified, where appropriate, to conform with the 2018 final statement presentation.**

### *Prior period Adjustments*

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

## 2. Deposits and Investments

All monies of the Account are deposited with the State Treasurer’s Office (OST) as part of the State’s Treasury/Trust Portfolio, and are considered cash equivalents. The Treasurer is responsible for maintaining and investing the pooled cash balances in accordance with State laws. The Treasurer is required to maintain a mix of investment portfolios in order to allow funds to be withdrawn at any time to meet normal operating needs without prior notice or penalty. The Account’s proportionate share of the investment income, based on the average daily balance for the period, is credited to the Account monthly. The Treasurer charges the Account one-half of one percent of the average daily balance for administration costs. As of June 30, 2018, total Treasurer’s invested balance of the Treasury/Trust Fund Portfolio was \$8.6 billion. Details of the investments can be obtained from the State Treasurer’s Office.

The OST reports investments held for U.S. government and agency debt securities at fair value. OST categorizes the fair value measurements of these investments within the fair value hierarchy established by generally accepted accounting principles as Level 2 investments, as they are valued using observable inputs including quoted prices for similar securities and interest rates. All other investments are reported at amortized cost. The necessary disclosures for the State’s pooled investment program are included in the Comprehensive Annual Financial Report of the State of Washington.

|  | <u>Carrying<br/>Amount</u> | <u>Market<br/>Value</u> |
|--|----------------------------|-------------------------|
| Treasury/Trust Portfolio June 30, 2018 | <u>\$120,994,400</u>       | <u>\$120,994,400</u>    |
| Treasury/Trust Portfolio June 30, 2017 | <u>\$144,853,771</u>       | <u>\$144,853,771</u>    |

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EXHIBIT 1: Notes to the Financial Statements for FY18**

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

|                                 | <u>2018</u>      | <u>2017</u>    |
|---------------------------------|------------------|----------------|
| CWSRF Securities on loan:       |                  |                |
| Fair Value                      | \$ 4,983,666     | \$ 2,450,570   |
| *Cash Collateral held by CWSRF: |                  |                |
| Fair Value                      | 0                | 2,512,129      |
| Reported Value                  | 0                | 2,512,129      |
| OST Securities on loan:         |                  |                |
| Fair Value                      | \$ 355,767,264   | \$ 117,290,519 |
| Cash Collateral held by OST:    |                  |                |
| Fair Value                      | 4,416,333,030    | 120,236,875    |
| Reported Value                  | \$ 4,416,333,030 | \$ 120,236,875 |

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

## 2. Deposits and Investments (Continued)

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

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

As of June 30, 2018 and 2017, investment portfolio activity for the treasurer and treasurer trust account which include SRF fund securities on loan totaled \$120,994,400 book value and \$355,767,264 fair value, and \$144,853,771 book value and \$117,290,519 fair value respectively.

On June 30, 2018 and 2017, the average life of both the loans and the investment of cash received as collateral was one day.

The investment policy requires that any securities on loan be made available by the lending agent for next day liquidity at the option of the OST. During fiscal year 2018, the OST had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts the borrowers owed the OST.

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

### 3. Loans Receivable

The Account makes loans to qualified entities for projects that meet the eligibility requirements of The Act. Loans are financed by capitalization grants, state matches, and revolving funds. Interest rates for SFY 2017 were established at 1 percent for up to a five year-term and 2 percent for loans with more than a five-year term, but no more than 20 years. The Account also makes hardship loans with a variable interest rate, as low as zero, to communities that can demonstrate financial hardship on residential ratepayers in the form of sewer user fees. Loan repayments are required to start one year after initiation of operations or project completion, whichever occurs first.

As of June 30, 2018 and 2017, the Account had total binding commitments of \$111,984,556 and \$96,417,748, respectively, which meets the program requirement of committing 120% of the federal grant payment within one year following receipt. Federal funds awarded to date including ARRA Federal funds is \$748,333,460 and \$725,277,460 as of June 30, 2018 and 2017, respectively. Loan obligations as of June 30, 2018 and 2017, which include state matching requirements and principal and interest collected from repayment, were \$1,831,385,759 and 1,728,675,811 respectively.

#### *Loans by Category*

##### **Fiscal Year 2018**

|  | Loan Authorized | Remaining<br>Commitment | Receivable<br>Balances      |
|--|-----------------|-------------------------|-----------------------------|
| Completed projects   | \$1,164,062,435 | 446,781,973             | \$717,280,462               |
| Projects in progress   | 293,945,151     | 73,239,325              | <u>220,705,826</u>          |
| Total  |                 |                         | 937,986,287                 |
| Payment requests in progress<br>(Received as of June 30, 2018, but not yet paid) |                 |                         |                             |
| Less amount due in one year  |                 |                         | <u>62,807,230</u>           |
| Loans receivable, June 30, 2018<br>(Net of current maturities)                   |                 |                         | <u><u>\$875,179,057</u></u> |

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**3. Loans Receivable (Continued)  
Fiscal Year 2017**

|  | Loan Authorized | Remaining<br>Commitment | Receivable<br>Balances      |
|--|-----------------|-------------------------|-----------------------------|
| Completed projects   | \$1,025,969,052 |                         | \$626,286,116               |
| Projects in progress   | 374,954,471     | 129,868,927             | <u>245,085,544</u>          |
| Total  |                 |                         | 871,371,660                 |
| Payment requests in progress<br>(Received as of June 30, 2017, but not yet paid) |                 |                         |                             |
| Less amount due in one year  |                 |                         | <u>51,361,440</u>           |
| Loans receivable, June 30, 2017<br>(Net of current maturities)                   |                 |                         | <u><u>\$820,010,220</u></u> |

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

| <b>Year<br/>Ending<br/>June 30,</b> | <b>Interest</b>      | <b>Principal</b>            | <b>Total</b>         |
|-------------------------------------|----------------------|-----------------------------|----------------------|
| 2019                                | 14,409,000           | 57,671,329                  | 72,080,329           |
| 2020                                | 13,335,374           | 57,297,936                  | 70,633,310           |
| 2021                                | 12,289,642           | 55,593,627                  | 67,883,269           |
| 2022                                | 11,268,997           | 54,050,298                  | 65,319,295           |
| 2023                                | 10,265,604           | 52,604,097                  | 62,869,702           |
| 2024-2028                           | 36,577,812           | 223,710,167                 | 260,287,980          |
| 2029-2033                           | 15,501,276           | 141,351,601                 | 156,852,877          |
| 2034-2038                           | 8,213,552            | 70,568,249                  | 78,781,802           |
| 2039-2043                           | 958,001              | 4,433,157                   | 5,391,158            |
| Total                               | <u>\$122,819,259</u> | <u>\$717,280,462</u>        | <u>\$840,099,720</u> |
| Loans not yet in repayment          |                      | <u>\$220,705,826</u>        |                      |
| Total loans receivable              |                      | <u><u>\$937,986,287</u></u> |                      |

### 3. Loans Receivable (Continued)

#### *Loans to Major Local Entities*

As of June 30, 2016, the Account made loans to the following major local entities. The aggregate outstanding balance for each of these entities exceeds 2 percent of total loans receivable. The combined outstanding balances of these loans at June 30, 2018 and 2017 represent approximately 49.9 and 45.8 percent of the total loans receivable and are as follows:

| <u>Borrower</u>                             | 2018             |                  | 2017             |                  |
|---|------------------|------------------|------------------|------------------|
|   | Authorized       | Outstanding      | Authorized       | Outstanding      |
|   | Loan             | Loan             | Loan             | Loan             |
|   | Amount           | Balance          | Amount           | Balance          |
|   |                  |                  |                  |                  |
| City of Tacoma                              |                  |                  | \$75,652         | \$46,350         |
| King County Department of Natural Resources | 305,495          | 213,928          | 290,743          | 192,721          |
| Lake Stevens Sewer District                 |                  |                  | 53,457           | 44,056           |
| Lott Wastewater Alliance                    | 76,207           | 52,398           | 76,206           | 55,202           |
| Oak Harbor                                  | 102,048          | 86,247           |                  |                  |
| Pierce County                               | 63,408           | 62,018           | 60,556           | 60,859           |
| Spokane City of                             | 76,233           | 53,292           |                  |                  |
| <b>Total</b>                                | <b>\$623,391</b> | <b>\$467,883</b> | <b>\$556,614</b> | <b>\$399,188</b> |

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

### 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 \$748,333,460 in grants to the State, of which approximately \$747,979,413 has been drawn for loans and administrative expenses. The State has provided a total of approximately \$136,037,427 in matching funds for that total drawn amount. The following summarizes the grants awarded, amounts drawn on each grant as of the balance sheet date, and balances available for future loans:

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

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(Figures are in Thousands)

| Year         | Grant Award      | Funds Drawn                 | Funds Drawn                     | Funds Drawn         | Funds Drawn                     | Available for Loans as of June 30, 2018 |
|--------------|------------------|-----------------------------|---------------------------------|---------------------|---------------------------------|---|
|              |                  | As of June 30, 2015 & Prior | During Year Ended June 30, 2017 | As of June 30, 2017 | During Year Ended June 30, 2018 |   |
| 1989-2009    | \$476,311        | \$476,311                   | \$ -                            | \$476,311           | \$476,311                       | \$ -                                    |
| 2010         | 35,433           | 35,433                      | -                               | 35,433              | 35,433                          | -                                       |
| 2011         | 25,680           | 25,680                      | -                               | 25,680              | -                               | -                                       |
| 2012         | 24,578           | 24,578                      | -                               | 24,578              | 24,578                          | -                                       |
| 2013         | 23,247           | 2143                        | 21,104                          | 23,247              | 23,247                          | -                                       |
| 2014         | 24,383           | -                           | 24,383                          | 24,383              | 24,383                          | -                                       |
| 2015         | 24,258           | -                           | 24,258                          | 24,258              | 24,258                          | -                                       |
| 2016         | 23,235           | -                           | 23,006                          | 23,006              | 23,006                          | 229                                     |
| 2017         | 23,056           | -                           | -                               | -                   | 22,931                          | 125                                     |
| <b>Total</b> | <b>680,181</b>   | <b>564,145</b>              | <b>92,751</b>                   | <b>656,896</b>      | <b>22,931</b>                   | <b>354</b>                              |
| 2008-ARRA    | 68,152           | 68,152                      | 0                               | 68,152              | 0                               | 0                                       |
| <b>Total</b> | <b>\$748,333</b> | <b>\$632,297</b>            | <b>\$92,751</b>                 | <b>\$725,048</b>    | <b>\$22,931</b>                 | <b>\$354</b>                            |

**4. Capital Contributions (Continued)**

(Figures are in Thousands)

|                 | State Match Applied | State Match Applied             | State Match Applied | State Match Applied             |
|-----------------|---------------------|---------------------------------|---------------------|---------------------------------|
|                 | As of June 30, 2015 | During Year Ended June 30, 2017 | As of June 30, 2017 | During Year Ended June 30, 2018 |
| State Disbursed | \$112,871           | \$18,555                        | \$131,426           | \$4,611                         |

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

**4. Capital Contributions (Continued)**

**Administrative Fund**

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

|                                 | <u>June 30,<br/>2018</u> | <u>June 30,<br/>2017</u> |
|---------------------------------|--------------------------|--------------------------|
| Administrative fee collected    | \$2,250,957              | \$1,848,760              |
| Interest on admin fee collected | 46,845                   | 21,476                   |
|                                 | <u>\$2,297,802</u>       | <u>\$1,870,236</u>       |
| Operating expenses incurred     | <u>(\$1,749,702)</u>     | <u>(\$256,344)</u>       |

**5. Contingencies and Subsequent Events**

*Contingencies*

The Account is exposed to various risks of loss, related to torts, thefts of assets, errors or omissions, injuries to state employees while performing Account business, or acts of God. The state of Washington operates a self-insurance liability program pursuant to RCW 4.92.130. The Account maintains insurance for all risks of loss which is included in the indirect costs allocated to the Account. There have not been any claims against the Account since its inception in 1989. Refer to the State’s Risk Management disclosure in the June 30, 2018 and 2017, Comprehensive Annual Financial Reports.

## 6. Retirement Plans (Continued)

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

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

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

For the year ended June 30, 2017, the investment rate of return on investments was 6.9 percent over the past three years and 10.0 percent over the past five years.

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

Contributions, annual pension costs and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2017, 2016, are not determinable at the Account level. However, this information is reported at a statewide level in the State of Washington's Comprehensive Financial Report.

## 6. Retirement Plans (Continued)

### Other Post Employment Benefits

#### Plan Description

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

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

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

Contributions are set each biennium as part of the budget process. In fiscal years 2018 the employer's contribution was \$913 and the employee's contribution ranged from \$102 to \$137 depending on plan. The benefits are funded on a pay-as-you-go basis.

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

More information on the State Retirement plan can be found in the State CAFR <http://www.ofm.wa.gov/cafr/2016/CAFR17.pdf>

Contributions, annual, other post employment benefit costs, and trend information attributable to employees of Ecology for the fiscal years ended June 30, 2017, 2016, are not determinable at the Account level. However, this information is reported at a statewide level in the State of Washington's Comprehensive Financial Report.

Information for fiscal year 2018 was not available at the time of this report.

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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 EXHIBIT 2: Disbursements and Accruals**

| 2018 DISBURSEMENTS FOR ADMIN  | <b>FY 2018</b> | <b>Federal</b> | <b>State Match</b> |
|---|----------------|----------------|--------------------|
| TOTAL DISBURSEMENTS   | \$27,517,699   | \$22,931,421   | \$4,586,278        |
| 2018 CASH DRAW FROM<br>CAPITALIZATION GRANTS  | (\$22,931,421) |                |                    |
| 2018 STATE MATCH (20% of CASH<br>DRAWS)   | (\$4,586,278)  |                |                    |
| 2018 100% STATE FUNDS<br>DISBURSEMENTS  | \$90,127,068   |                |                    |
| TOTAL DISBURSEMENTS LOAN,<br>ADMIN, FED AND STATE                                     | \$117,644,767  |                |                    |
| PERCENTAGE OF CASH<br>DRAW FROM<br>CAPITALIZATION<br>GRANTS TO TOTAL<br>DISBURSEMENTS | 83.33%         |                |                    |
| <hr/>   |                |                |                    |
| ADMIN CALCULATION   | 0.00%          |                |                    |

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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EXHIBIT 3: Comparative Statement of Net Position**

| ASSETS                                      | 2018            |                  |               | 2017            |
|---|-----------------|------------------|---------------|-----------------|
|   | Loan Activity   | Program Activity | Total         | Loan Activity   |
| <b>CURRENT ASSETS</b>                       |                 |                  |               |                 |
| Cash and cash equivalents                   | \$120,997,582   | \$4,707,857      | \$125,705,439 | \$144,853,771   |
| Collateral Held/Security Lending Agreements |                 |                  |               | 2,512,129       |
| Receivables:                                |                 |                  |               |                 |
| Due from federal government                 |                 |                  |               | 110,274         |
| Loan interest                               |                 |                  |               | 2,034,153       |
| Due from other funds                        | 148,660         | 9,111            | 157,771       | 126,642         |
| Loans receivable:                           |                 |                  |               |                 |
| Current portion                             | 62,807,230      |                  | 62,807,230    | 51,361,440      |
| Total current assets                        | 183,953,472     | 4,716,968        | 188,670,440   | \$200,998,409   |
| <b>OTHER ASSETS</b>                         |                 |                  |               |                 |
| Loans receivable:                           |                 |                  |               |                 |
| Noncurrent                                  | 875,179,057     |                  | 875,179,057   | 819,937,656     |
| Total other assets                          | 875,179,057     |                  | 875,179,057   | 819,937,656     |
| <b>TOTAL ASSETS</b>                         | 1,059,132,529   | 4,716,968        | 1,063,849,497 | 1,020,936,065   |
| <b>LIABILITIES AND NET POSITION</b>         |                 |                  |               |                 |
| <b>CURRENT LIABILITIES</b>                  |                 |                  |               |                 |
| Accounts payable and accrued expenses       | 5,519,486       | 53,057           |               | 3,332,273       |
| Due to other funds                          |                 | 93,836           |               | 19,155          |
| Due to other Agencies                       |                 |                  |               |                 |
| Obligation Under Security Lending Agreement |                 |                  |               | 2,512,129       |
| Total current liabilities                   | 5,519,486       | 146,893          |               | 5,863,557       |
| <b>NET POSITION</b>                         |                 |                  |               |                 |
| Restricted                                  | \$1,053,613,043 | \$4,570,074      |               | \$1,015,072,508 |
| Total net position                          | \$1,053,613,043 | \$4,716,967      |               | \$1,015,072,508 |

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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EXHIBIT 4: Comparative Statement of Revenues, Expenses, and Changes In Net Position**

|   | 2018             |                     |               | 2017             |                   |               |
|---|------------------|---------------------|---------------|------------------|-------------------|---------------|
|   | Loan<br>Activity | Program<br>Activity | Total         | Loan<br>Activity | Loan<br>Corrected | Prior Adj     |
| <b>OPERATING REVENUE</b>  |                  |                     |               |                  |                   |               |
| Loan interest income  | 18,320,311       | 0                   | 18,320,311    | 14,002,134       | 13,166,821        | (835,313)     |
| Total operating revenue   | 18,320,311       | 0                   | 18,320,311    | 14,002,134       | 13,166,821        | (835,313)     |
| <b>OPERATING EXPENSES</b>                                       |                  |                     |               |                  |                   |               |
| Personnel services  |                  | 1,385,619           | 1,385,619     | 785,467          | 785,467           | 0             |
| Other expenses  |                  | 364,082             | 364,082       | 411,409          | 483,973           | 72,564        |
| Total operating expenses  |                  | 1,749,702           | 1,749,702     | 1,196,876        | 1,269,440         | 72,564        |
| <b>INCOME FROM OPERATIONS</b>                                   | 18,320,311       | (1,749,702)         | 16,570,609    | 12,805,258       | 11,897,381        | (907,877)     |
| <b>NONOPERATING REVENUE (EXPENSE)</b>                           |                  |                     |               |                  |                   |               |
| Net investment income   | 1,319,443        | 46,845              | 1,366,288     | 1,183,495        | 1,183,495         | 0             |
| Prior Period Adj & Loan Services                                |                  | 2,250,957           | 2,250,957     |                  |                   |               |
| Loan Principal Forgiveness expense                              | (3,359,215)      |                     | (3,359,215)   | (1,963,274)      | (1,963,274)       | 0             |
| Total nonoperating revenue (expense)                            | (2,039,772)      | 2,297,802           | 258,030       | (779,779)        | (779,779)         | 0             |
| <b>INCOME BEFORE CONTRIBUTIONS</b>                              | 16,280,539       | 548,100             | 16,828,639    | 12,025,479       | 11,117,602        | (907,877)     |
| <b>CONTRIBUTIONS</b>  |                  |                     |               |                  |                   |               |
| EPA capitalization grant  | 22,931,422       |                     | 22,931,422    | 29,829,027       | 29,829,027        | 0             |
| State match revenue   | 4,614,200        |                     | 4,614,200     | 6,000,000        | 6,000,000         | 0             |
| Total contributions   | 27,545,622       | 0                   | 27,545,622    | 35,829,027       | 35,829,027        | 0             |
| <b>CHANGE IN NET POSITION</b>                                   | 43,826,161       | 548,100             | 44,374,261    | 47,854,506       | 46,946,629        | (907,877)     |
| <b>NET POSITION - BEGINNING OF YEAR, as previously reported</b> | 1,015,072,507    | 4,021,974           | 1,019,094,481 | 967,218,001      | 962,767,690       | (4,450,311)   |
| Prior Period Adjustment   | (5,358,188)      |                     | (5,358,188)   |                  |                   |               |
| <b>NET POSITION-Beginning of year, as restated</b>              | 1,009,714,319    |                     | 1,013,736,293 | 967,218,001      | 962,767,690       | (5,358,188)   |
| <b>NET POSITION - END OF YEAR</b>                               | 1,053,540,480    | 4,570,074           | 1,058,110,554 | \$1,015,072,507  | \$1,009,714,319   | (\$5,358,188) |

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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EXHIBIT 5: COMPARATIVE STATEMENT OF CASH FLOWS**

|  | 2018          |                  |               | 2017          |               |             |
|--|---------------|------------------|---------------|---------------|---------------|-------------|
|  | Loan Activity | Program Activity | Total         | Loan Activity | Corrected     | Prior Adj   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |               |                  |               |               |               |             |
| Cash paid to employees and vendors   | (\$79,878)    | (\$1,650,335)    | (\$1,730,213) | 1,990,470     | (1,188,182)   | (3,178,652) |
| Cash flows provided (required) by operating activities   | (79,878)      | (1,650,335)      | (1,730,213)   | 1,990,470     | (1,188,182)   | (3,178,652) |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |               |                  |               |               |               |             |
| Funds received from EPA  | 22,931,422    |                  | 22,931,422    | 29,718,753    | 29,829,027    | 110,274     |
| Funds received from the state of Washington  | 4,614,200     |                  | 4,614,200     | 6,000,000     | 6,000,000     |             |
| Loan Services  |               | 2,250,957        | 2,250,957     |               | (3,000)       | (3,000)     |
| Cash flows provided by noncapital financing activities   | 27,545,622    | 2,250,957        | 29,796,579    | 35,718,753    | 35,826,027    | 107,274     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |               |                  |               |               |               |             |
| Cash Received from Interest on Loans   | 18,320,311    |                  | 18,320,311    | 12,401,527    | 13,166,821    | 765,294     |
| Loans Disbursed  | (117,644,767) |                  | (117,644,767) | (144,008,824) | (145,972,098) | (1,963,274) |
| Principal received on Loans Receivable   | 49,938,939    |                  | 49,938,939    | 47,583,289    | 49,353,462    | 1,770,173   |
| Net investment income received   | 1,319,443     | 46,845           | 1,366,288     | 1,224,788     | 1,183,495     | (41,293)    |
| Net Cash Provided (Required) by Investing Activities   | (48,066,074)  | 46,845           | (48,019,229)  | (82,799,220)  | (82,268,320)  | 530,900     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>   | (20,600,330)  | 647,467          | (19,952,863)  | (45,089,997)  | (47,630,475)  | (2,540,478) |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR,</b>  |               |                  |               |               |               |             |
| as previously stated   | 144,853,771   | 4,060,390        | 148,914,161   | 189,943,768   | 189,228,388   | (715,380)   |
| Prior Period Adjustment  | (3,255,858)   |                  | (3,255,858)   |               |               |             |
| <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR,</b>  |               |                  |               |               |               |             |
| as restated  | 141,597,913   | 4,060,390        | 145,658,303   | 189,943,768   | 189,228,388   |             |
| <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>   | 120,997,583   | 4,707,857        | 125,705,440   | 144,853,771   | 141,597,913   | (3,255,858) |
| <b>Reconciliation of operating income to net cash required by operating activities</b>               |               |                  |               |               |               |             |
| Income from Operations   | \$12,854,379  | (1,749,702)      | 11,104,677    | 12,805,259    | 9,937,107     | (2,868,152) |
| <b>Adjustments to Reconcile Income from Operations to Net Cash Required by Operating Activities:</b> |               |                  |               |               |               |             |
| Cash Received from Interest on Loans   | (18,320,311)  |                  | (18,320,311)  | (12,401,527)  | (13,166,821)  | (765,294)   |
| Loans Disbursed  | 117,644,767   |                  | 117,644,767   | 144,008,824   | 145,972,098   | 1,963,274   |
| Principal Received on Loans Receivable   | (49,938,939)  |                  | (49,938,939)  | (47,583,289)  | (49,353,462)  | (1,770,173) |

**WASHINGTON STATE DEPARTMENT OF ECOLOGY  
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EXHIBIT 5: COMPARATIVE STATEMENT OF CASH FLOWS**

**Exhibit 5 Continued**

**Effect of Changes in Operating Assets and Liabilities:**

|   |                   |                      |                    |                    |                      |                    |
|---|-------------------|----------------------|--------------------|--------------------|----------------------|--------------------|
| Loan Interest Receivable                                    | 2,034,153         |                      | 2,034,153          | (248,227)          |                      | 248,227            |
| Due to Other Funds  | (62,719)          | 93,836               | 31,117             |                    | 11,149               | 11,149             |
| Due to Other Government                                     |                   |                      |                    |                    |                      |                    |
| Loans Receivable  | (66,542,063)      |                      | (66,542,063)       | (97,496,569)       | (95,738,902)         | 1,757,667          |
| Accounts Payable and Accrued Expenses                       | (32,851)          | 11,513               | (21,338)           | 2,948,700          | 27,773               | (2,920,927)        |
| Due from Other Funds  |                   | (5,982)              | (5,982)            |                    |                      |                    |
| Due from Fed Government                                     | 110,274           |                      | 110,274            |                    | (3,365)              | (3,365)            |
| Due from Other Funds  | 22,018            |                      | 22,018             | (42,701)           | 42,701               | 85,402             |
| Unavailable Revenue   | 2,195,449         |                      | 2,195,449          |                    | 1,083,540            | 1,083,540          |
| <b>Net Cash Provided (Required) by Operating Activities</b> | <b>(\$35,842)</b> | <b>(\$1,650,335)</b> | <b>(1,686,178)</b> | <b>\$1,990,470</b> | <b>(\$1,188,182)</b> | <b>(3,178,652)</b> |