

US EPA ARCHIVE DOCUMENT

**AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009**

**ENVIRONMENTAL PROTECTION AGENCY RECOVERY ACT PROGRAM PLAN:  
CLEAN WATER STATE REVOLVING FUND  
MAY 15, 2009**

**a) Funding Table**

<b>EPA Program-Specific Recovery Act Plan Clean Water State Revolving Funds (CWSRF)</b>				
<b>Treasury Symbol</b>	<b>Appropriations</b>	<b>Program</b>	<b>Sub-program</b>	<b>Total Appropriation</b>
689/00102	STAG - Recovery Act	CLEAN WATER SRF	Recovery Act: CWSRF Fund*	\$3,869,608,000
			Recovery Act: CWSRF Indian Set Aside	\$60,000,000
			Recovery Act: Water Quality Planning - 604(b)	\$39,392,000
689/10108	EPM (M&O) -- Recovery Act	CLEAN WATER SRF	Recovery Act: EPA (Headquarters & Regions)	\$31,000,000
<b>Total</b>				<b>\$4,000,000,000</b>

\*Includes grants to the District of Columbia and Territories.

Note: \$15,500,000 (one half of the Management and Oversight funds) were not made immediately available for obligation but held in reserve for future years. Thus, the current total funds available for obligation in EPA's financial system is \$3,984,500,000.

**b) Objectives**

The Clean Water State Revolving Fund State and Tribal Assistance Grants (STAG) provides funds to states to establish state loan revolving funds that finance infrastructure improvements for public wastewater systems and other water quality projects. The CWSRF is essentially comprised of 51 state financing programs (includes Puerto Rico) which are run in accordance

with the federal statute and regulations. For the District of Columbia and the territories, these STAG funds are used for direct grants to the District or territory for similar purposes. 1.5 percent of the STAG funds are set-aside for wastewater infrastructure improvements on tribal lands. Out of remaining STAG funds, each state and territory receives 1 percent of their allotment or \$100,000 (whichever is greater) to support water quality management planning.

The objectives that have been established for the CWSRF funding under ARRA will ensure program focus on beneficial, cost-effective project development and implementation that creates jobs quickly. The objectives developed specifically for the ARRA are consistent with established on-going CWSRF program objectives and will be integrated with existing CWSRF management and operations. CWSRF projects are selected based on statutory principles (i.e., public health and water quality goals) carried out through State-established priority systems. Objectives developed for ARRA funding through the CWSRF program are guided by the overarching goal of the National Water Program to protect aquatic systems throughout the country, including rivers, lakes, coastal water, and wetlands.

CWSRF objectives that are specific to ARRA are:

1. To preserve and create jobs and promote economic recovery through investments in water infrastructure and other water quality projects.
2. To give priority to water infrastructure projects on a state priority list that are ready to proceed to construction within 12 months, with a goal of providing 50 percent of the funds to projects ready to initiate construction by June 17, 2009.
3. To provide a greater federal share for local clean water projects (through additional subsidization) and to reach communities that would otherwise not have the resources to repay a loan (e.g., disadvantaged communities, environmental justice communities).
4. To increase the number of clean water infrastructure improvement projects.
5. To ensure funding of green infrastructure, water and/or energy efficiency and innovative water quality improvements, such that at least 20 percent of the funds are used for such 'green' projects, to the extent applications are available.
6. In the case where a state does not commit funds to projects that are under contract or construction within one year of enactment, to promptly re-allot the funds to states that can quickly commit the funds to projects ready to proceed.

ARRA objectives will be in coordination with Agency program goals including:

7. Increase the number, and national percent, of all major publicly-owned treatment works (POTWs) that comply with their permitted wastewater discharge standards (i.e., POTWs that are not in significant non-compliance)
8. Maintain a high fund utilization rate (cumulative loan agreement dollars to the cumulative funds available for projects) for the Clean Water State Revolving Fund (CWSRF)
9. By 2015, in coordination with other federal agencies, reduce by 50 percent the number of homes on tribal lands lacking access to basic sanitation.

**c) Activities**

1. ARRA funds will increase the amount of money that is available through state revolving funds to provide assistance to:
  - i. State or local governments for planning, design, and construction of publicly owned wastewater treatment facilities, to build or rehabilitate sewer collection systems, and control or mitigate stormwater runoff.
  - ii. Public or private entities for capital projects that address nonpoint source pollution, to the extent those projects are identified in State Nonpoint Source Control Plans (under Section 319 of the Clean Water Act).
  - iii. Public or private entities for capital projects that address water quality needs, to the extent those projects are identified in Comprehensive Conservation Management Plans by one of the 39 estuary programs recognized under Section 320 of the Clean Water Act.
  - iv. Entities in i. - iii. for green infrastructure, water and/or energy efficiency, and innovative water quality improvements.
2. ARRA funds will support administration of the 51 SRF programs by the states.
3. ARRA funds will increase the amount of money that is available to DC and the territories through direct grants from EPA for:
  - i. Planning, design, and construction of publicly owned wastewater treatment facilities, building or rehabilitation of sewer collection systems, and control or mitigation of stormwater runoff.
  - ii. Public or privately owned capital projects that address nonpoint source pollution, to the extent those projects are identified in District/Territory Nonpoint Source Control Plans (under Section 319 of the Clean Water Act).
4. ARRA funds will provide assistance to Tribes through an interagency agreement with the Indian Health Service (IHS) for the planning, design, and construction of wastewater management and treatment facilities.
5. Support of water quality management planning activities by the states, DC, and the territories and regional planning entities.

**d) Funding Characteristics**

The funding provided by ARRA will be primarily capitalization grants to states. States operate independent CWSRF programs and will determine the terms of assistance within the parameters of the Act.

<b>Type of Financial Award</b>	<b>Type of Recipient/ Beneficiary</b>	<b>Estimated Dollar Amount</b>	<b>Methodology for Award Selection</b>
CFDA No. 66.458  Formula grants  (capitalization grants to states;	States  U.S. Territories and possessions (includes DC)	\$3.87 billion of which an estimated \$0.78 billion is reserved for green infrastructure, water and/or energy	Federal Clean Water Act allotment formula defines how much each State, DC, and each territory gets.

<p>direct grants for planning, design, and/or construction to DC and the territories)</p>	<p>States receive capitalization grants and provide assistance to eligible assistance recipients within the State. Eligible assistance recipients (local governments, etc.) receive assistance generally in the form of loans; 50 percent of the total capitalization grant is provided as additional subsidy to assistance recipients in the form of principle forgiveness, negative interest rates, or grants</p> <hr/> <p>DC and the territories receive direct grants</p>	<p>efficiency, and environmentally innovative projects to the extent that applications exist</p> <p>States may use up to 4 percent for administration of the revolving fund</p>	<p>States develop project priority lists, for ARRA funds, States give priority to projects ready to proceed and (for 20 percent of their funds) green projects ready to proceed.</p>
<p>Formula Grant</p> <p>(direct grants or cooperative agreements for Water Quality Management Planning)</p>	<p>States</p> <hr/> <p>U.S. Territories and possessions (includes DC)</p>	<p>\$39.4 million</p>	<p>Federal Clean Water Act allotment formula specifies 1 percent of State's CWSRF allocation or \$100,000 – whichever is higher</p>
<p>Other (Interagency Agreement)</p>	<p>Federal (Indian Health Services/Tribes are beneficiary)</p>	<p>\$60 million (\$57.6 million for benefit of tribes; \$2.4 million for IHS management and oversight)</p>	<p>ARRA specifies 1.5 percent of \$4 billion for Tribal Set-Aside, and specifies that IHS may use 4 percent of any funds managed through an IA with IHS for management and oversight</p> <p>Tribal projects are selected in consultation with IHS based upon the IHS priority ranking system</p>
<p>EPA Management &amp; Oversight</p>	<p>In-house (EPA staff, travel, and</p>	<p>\$10.508 million (Office of Water</p>	<p>Na</p>

	administrative expenses (non-contract) for management and oversight of the funds)	only)	
EPA Management & Oversight	Contract (technical and administrative support for management and oversight of the funds)	\$14.492 million (Office of Water only)	Awarded in compliance with the Agency's competition policies. In general, use of previously competed and awarded contracts is anticipated

**e) Delivery Schedule**

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|--|------------------------|
| 1. Issuance of Guidance on Award of Capitalization Grants  | March 2, 2009          |
| 2. Issuance of Guidance on Award of Water Quality Management Planning Grants or Cooperative Agreements | March 2009             |
| 3. States prepare CWSRF Intended Use Plans (IUPs)  | February - May 2009    |
| 4. Award of IA to IHS for tribal assistance  | May 2009               |
| 5. Issuance of Guidance on Award of Direct Grants  | May 2009               |
| 6. DC and Territories projects undergo NEPA review   | April – September 2009 |
| 7. State submission of grant applications to EPA   | March – September 2009 |
| 8. EPA awards grants   | March – October 2009   |
| 9. States certify to projects that are under contract or in construction by February 17, 2010          | February 24, 2010      |
| 10. EPA reallots funds for projects missing Feb. 17 deadline   | March 2010             |
| 11. State submission of full grant applications to EPA for reallotted funds                            | April 2010             |
| 12. EPA awards grants under reallocation   | April/May 2010         |

Throughout, EPA will monitor the use of funds for intended purposes. For example, in the first phase of ARRA implementation, EPA will review each state's detailed plan that specifies how the funds will be used. As implementation progresses, EPA will continue to monitor ARRA activities. For instance, the Agency will conduct detailed reviews of selected financial withdrawals of U.S. Treasury funds by states to ensure that the associated invoices are in order.

**f) Environmental Review**

Each state CWSRF program uses approved State Environmental Review Processes (SERP) that comply with the National Environmental Policy Act. The SERP process will be used by states for all projects funded with ARRA funds. The SERPs incorporate project impact review as is

required by all applicable federal environmental requirements including cross-cutting laws, policies, and Executive Orders.

In DC and the territories, grants will be awarded from ARRA funds as CWA Title II grants for the funds from CWSRF. The grants awarded under CWA Title II are required to comply with the National Environmental Policy Act, Pub. L. 91-190.

Clean Water Indian Set-Aside (CWISA) Program funds transferred to IHS in the form of an Interagency Agreement (IA) will be administered by IHS under its policies and guidelines, including applicable Federal requirements, such as environmental review, and subject to its authorizing statutes (including the Indian Self-Determination Act, Indian Health Care Improvement Act, and P.L. 86-121 (42 U.S.C. 2004a).

#### **g) Performance Measures**

As the nation's largest water quality finance program, the CWSRF program supports the overarching goal of the National Water Program to protect aquatic systems throughout the country, including rivers, lakes, coastal water, and wetlands. Existing water program outcome measures, reported annually in the Agency's Performance and Accountability Report, include:

Long-term Measure: Number of waterbodies identified in 2002 as not attaining water quality standards where standards are now fully attained (cumulative).

Annual Measure: Number, and national percent, of all major publicly-owned treatment works (POTWs) that comply with their permitted wastewater discharge standards (i.e., POTWs that are not in significant non-compliance).

The ARRA funds, in combination with the regular program appropriation and effective management of existing fund assets, are projected to improve program performance upon project completions. Based upon normal construction timelines, we would anticipate very few project completions in FY10, more in FY11, and most in FYs 12, 13, and 14. Although effect on compliance (annual measure) can be seen shortly after construction completion, waterbody improvements often lag project completion as natural attenuation occurs. Outcome results are also impacted by other factors, including new sources of water pollution, increased loadings from existing sources (e.g., due to population growth or industrial sources not generally eligible for program funding), or altered stream morphology due to changes in land use patterns. Though the ARRA funds represent a significant increase in program funds available for project finance and will finance worthy projects that may otherwise not proceed, impacts from ARRA funds will not be able to be shown separately from core program impacts except possibly for anecdotal instances.

Programmatic outputs contributing to these outcomes are used to measure program performance. New measures specific to ARRA-related funding have been established and will be used in conjunction with the existing program measures.

Performance measures in place that are specific to ARRA:

1. Number of States that have awarded all of their 20 percent green project reserve
2. Number of ARRA projects that are under contract (non-tribal)
3. Number of ARRA projects for which Tribes have signed a Memorandum of Agreement with IHS for the project (tribal)
4. Number and ARRA amount (\$) of projects that have started construction (non-tribal)
5. Number and ARRA amount (\$) of projects that have started construction (tribal)
6. Number and ARRA amount (\$) of projects that have completed construction (non-tribal)
7. Number and ARRA amount (\$) of projects that have completed construction (tribal)

Since these measures are ARRA-specific, they will directly show performance against the ARRA funds, tracking states' ability to identify and finance "green" projects totaling 20 percent of the ARRA funds as well as recipient performance in project initiation and completion.

In order to ensure that the fiscal integrity of the program remains strong, that overall program funds are used to finance projects quickly, and that the use of the funds remains efficient, the program will continue to track programmatic output measures, which include the fund utilization rate (cumulative loan agreement dollars to the cumulative funds available for projects) for the Clean Water State Revolving Fund (CWSRF).

ARRA implementation could have an effect on the CWSRF program's broader performance measure for fund utilization. The massive influx of stimulus funds is anticipated to have a negative effect on fund utilization rate in FY09 and FY10, as the program deals with an unprecedented level of new funding while managing an ever increasing volume of repayments from prior year loans. We generally consider fund utilization in the 94-96 percent range to be excellent, and do not expect to be able to maintain that in the short term. Our goal would be to achieve those levels again in FY11 and beyond.

The types and scope of projects being funded with ARRA funds is also expected to cause shifts in the efficiency metric (number 2 above). Despite the overall cost savings expected to result from the ARRA funds, the efficiency measure may actually suffer as the ARRA funds allow the program to reach more projects at the two ends of the spectrum: more projects for our smallest and poorest communities that are likely to be attracted by the first-time provision for loan forgiveness, and large scale stormwater and combined sewer projects that have historically been too expensive for the CWSRF to fund.

#### **h) Monitoring and Evaluation**

Monitoring and evaluation begins from the very start of the process, with review by EPA's Regional Offices of the grant applications (including the States' Intended Use Plans) adherence to requirements. EPA has developed an application review checklist to be used by Regional Offices to ensure adherence to the new ARRA requirements. Upon grant award, grant conditions specify the terms and conditions necessary to comply with the underlying statute, the ARRA,



regulations, and executive orders. This includes requirements for access to sites and information for compliance auditing purposes as well as reporting requirements specific to the grant.

For the State Revolving Funds, Title VI of the CWA created an annual cycle of accountability in the CWSRF program. States are required, for the life of the CWSRF program, to submit an annual report to EPA that communicates performance over the year. EPA conducts an annual review of each state's annual report, compliance with grant conditions, and overall operation of the program. Part of that review is transaction testing required to ensure that erroneous payments are not occurring. EPA will conduct transaction testing for ARRA funds equivalent to that performed on the rest of the CWSRF program. EPA is modifying its annual review checklist to ensure compatibility with ARRA requirements.

Title VI of the CWA also requires states to annually conduct an independent financial audit of the CWSRF fund accounts. Those independent audits test a state's financial management system in place and can also provide reports on the internal controls and compliance of each CWSRF program.

In addition, to ensure fiscal accountability, states require local recipients who expend \$500,000 or more of federal funds to submit their federally required "single audit" of their federally funded programs.

This process has been in place since the initiation of the CWSRF program (1987) and states and EPA are adept at conducting the monitoring, reporting, and evaluation process. Each element of this process will apply to the ARRA funding provided through the CWSRF program.

In addition to the annual review process, EPA will collect real-time information on project progress and performance. As a term and condition for each CWSRF capitalization grant, states will be required to report on project progress toward meeting the program goals and requirements established by ARRA. EPA will collect data on resource utilization and project performance through established Agency reporting systems and will post these data at least quarterly on EPA's Recovery Act web area.

For direct grants and water quality management planning cooperative agreements, post-award monitoring plans are established at the time of grant award. Routine monitoring of compliance with the grant conditions, including independent assessment that expenditures reflect work milestones completed, is part of that post-award monitoring. Site visits by EPA, a contractor, or the Corps of Engineers to review project progress, reporting, and accounting are included for direct grants involving construction.

#### **i) Transparency**

Under the ARRA, tracking begins at the direct recipient level, with information on grant applications received and grants awarded (including \$ amount obligated). Once expenditures against those grant awards commence, that data will also be reported at a grant level. This

information is being made public in the Weekly Recovery Act Reports which are available on [www.epa.gov/recovery](http://www.epa.gov/recovery).

Under the ARRA, tracking will also be done at the project and sub-recipient levels.

For projects in the 50 states, Puerto Rico, the District of Columbia, and the territories, EPA will be tracking projects and sub-recipient information in a database historically used by the states to track environmental benefits. EPA will make all project and sub-recipient information captured publicly available. Information known at the time of grant award or assistance agreement (sub-recipient) award will be entered in real time and posted on a monthly basis. Updates on construction starts will be entered in real time and posted monthly. Updates on construction progress will be made and posted quarterly.

For projects on tribal lands, IHS will be tracking projects in their project data system (PDS) and making ARRA reporting data publicly available.

Program performance measures that are not ARRA specific will continue to be reported and made publicly available annually with EPA's Performance and Accountability Report.

#### **j) Accountability**

The CWSRF program will ensure that the expenditure and monitoring of Recovery Act funds are transparent and that appropriate, qualified staff oversee Recovery Act resources.

Regional managers review and approve grant awards, using the evaluation checklists that have been developed under the ARRA. Under the annual cycle of accountability in the CWSRF program, findings from annual reviews and site visits by Regional staff are reported to Regional management and corrective actions taken. EPA Headquarters provides bi-annual review of Regional oversight, and participates in five state reviews each year. Findings are reported to management, issues elevated quickly to senior leaders, and corrective actions taken. State independent financial audits are reviewed at the Regional and Headquarters level. Questionable findings are investigated. Any issues arising from those investigations are escalated quickly to senior leadership and corrective actions are taken.

In compliance with the Federal Managers' Financial Integrity Act (FMFIA) EPA's ongoing management integrity program requires us to develop a multiyear program review strategy, conduct systematic and rigorous assessments of internal controls over our programmatic and financial operations, and report on the effectiveness of those controls in our annual letter of assurance to the Administrator. For FY 2009, we will be addressing the integrity of Recovery Act programs and including an additional assurance statement regarding ARRA funds and activities as part of our annual assurance letter to the Administrator.

In addition to our internal reviews, we will rely on audit findings and program evaluation results to inform our assessment and strengthen program accountability.

The oversight process in place for ARRA funding ensures that managers and staff will be held accountable for performance. Senior managers' performance standards include specific performance measures related to the CWSRF program, and staff's performance standards contain measures reflecting their role and responsibilities in achieving progress. (During midyear performance reviews, these performance standards and measures are being modified to address Recovery Act-specific goals.)

**k) Barriers to Effective Implementation**

A significant concern for the program is interpretation and implementation of the Buy American provision of the ARRA. Because the program has not been covered by such provisions under prior statutes, we do not have pre-existing procedures and experience to fall back upon. We have significant concerns that the goals of the ARRA with respect to project speed and job creation may be delayed – assistance recipients (e.g., municipal waterworks) lack experience with incorporating Buy American requirements into project design specifications and contract bidding procedures and we do not yet know the nature and extent of waiver requests that EPA will receive across the many individual projects that will be funded using ARRA monies.

**l) Federal Infrastructure Investments**

The CWSRF program is implementing the ARRA to ensure that funds are expended effectively to comply with the intent of the Act to focus on energy efficiency and green building technology. As specified in the ARRA, to the extent there are sufficient eligible project applications not less than 20 percent of the capitalization grant received by states will be used for projects to address green infrastructure, water or energy efficiency improvements or other environmentally innovative technologies. States must certify and EPA must accept the state certification that they did not receive sufficient eligible project applications for projects to address green infrastructure, water or energy efficiency improvements or other environmentally innovative technologies. EPA has provided guidance to the states that on implementation of the green reserve provisions, and is requiring states with insufficient green projects to make a concerted effort to solicit those projects from a wider array of potential recipients for 6 months before the state can certify that it has insufficient applications to fully utilize the reserve. EPA has conducted webcasts for states on the implementation of the green reserve provisions, and is planning webcasts for a broader array of constituencies in the spring.