

US EPA ARCHIVE DOCUMENT

**AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009**

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

**a) Funding Table**

<b>EPA Program-Specific Recovery Act Plan Drinking Water State Revolving Funds (DWSRFs)</b>				
<b>Treasury Symbol</b>	<b>Appropriations</b>	<b>Program</b>	<b>Sub-program</b>	<b>Total Appropriation</b>
689/00102	STAG - Recovery Act	DRINKING WATER SRF	Recovery Act: DWSRF Indian Set Aside	\$30,000,000
			Recovery Act: DWSRF State Programs*	\$1,950,000,000
689/10108	EPM (M&O) -- Recovery Act	DRINKING WATER SRF	Recovery Act: EPA (Headquarters & Regions)	\$20,000,000
<b>Total</b>				<b>\$2,000,000,000</b>

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

Note: \$10,000,000 (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 \$1,990,000,000.

**b) Objectives**

The Drinking Water State Revolving Fund State and Tribal Assistance Grant (STAG) provides funds to states to establish state loan revolving funds that finance infrastructure improvements for publicly and privately owned Community Water Systems and not-for-profit Non-Community Water Systems. The DWSRF is comprised of 51 state financing programs (includes Puerto Rico) which are run in accordance with the federal statute and regulations. Each State receives an allocation of funds based upon its proportionate share of the total national need reported in the

Drinking Water Infrastructure Needs Survey; each State is guaranteed a minimum allocation of 1 percent. For the District of Columbia (which receives an allocation of 1 percent), and the territories (which receive an allocation of 0.33 percent), these STAG funds are used for direct grants to the District or territories for similar purposes. 1.5 percent of the STAG funds are set-aside for drinking water infrastructure improvements on tribal lands and in Alaska Native Systems.

The objectives that have been established for the DWSRF 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 DWSRF program objectives and will be integrated with existing DWSRF management and operations. DWSRF projects are selected based on statutory principles (i.e., address the most serious risks to human health; ensure Safe Drinking Water Act compliance; and assist systems most in need considering per-household costs) carried out through state-established priority systems. Under ARRA, additional priority is given to projects that are ready to proceed. Objectives developed for ARRA funding through the DWSRF program are guided by the overarching goal of the National Water Program to protect public health by improving the quality of drinking water.

DWSRF 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 drinking 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 drinking 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. Increasing the percent of the population served by community water systems that receive drinking water that meets all applicable health-based standards.
8. Increasing the percent of Community Water Systems that meet all applicable health-based standards.
9. Maintain an acceptable fund utilization rate (cumulative loan agreement dollars to the cumulative funds available for projects) for the Drinking Water State Revolving Fund

(DWSRF) that indicated both ARRA funds and base program funds are being used to the fullest extent possible.

10. By 2015, in coordination with other federal agencies, reduce by 50 percent the number of homes on tribal lands lacking access to safe drinking water.

**c) Activities**

1. ARRA funds will increase the amount of money that is available through state revolving funds to provide assistance to:
  - i. Drinking water facilities for planning, design, and construction of drinking water treatment facilities and distribution systems; and for green infrastructure, water and/or energy efficiency, and environmentally innovative projects.
  - ii. States (at their option) to support core implementation of the Safe Drinking Water Act.
2. ARRA funds will support administration of the 51 SRF programs by the states.
3. Increase the amount of money that is available to DC and the territories through direct grants from EPA for planning, design, and construction of drinking water facilities and distribution systems.
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 drinking water facilities and distribution systems.

**d) Funding Characteristics**

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

Type of Financial Award	Type of Recipient/Beneficiary	Estimated Dollar Amount	Methodology for Award Selection
CFDA No. 66.468  Formula grants  (capitalization grants to states, direct grants for planning, design, and/or construction to DC and the territories)	States  U.S. Territories and Possessions (includes DC)  States receive capitalization grants and provide assistance to eligible assistance recipients within the State/ Eligible assistance recipients (local	\$1.95 billion of which an estimated \$0.39 billion is reserved for green infrastructure, water and/or energy efficiency, and environmentally innovative projects to the extent that applications exist  States may use up to 4 percent for	Safe Drinking Water Act formula defines how much each State, DC, and each territory gets.  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

	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 <hr/> DC and the territories receive direct grants	administration of the revolving fund	proceed.
Other (Interagency Agreement)	Federal (Indian Health Services/Tribes are beneficiary)	\$30 million for benefit of tribes, including \$1.2 million for IHS management and oversight	ARRA specifies 1.5 percent of \$2 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  Tribal projects are selected in consultation with IHS based upon the IHS priority ranking system
EPA Management & Oversight	In-house (EPA staff, travel, and administrative expenses (non-contract) for management and oversight of the funds)	\$10.265 million (Office of Water only)	Na
EPA Management & Oversight	Contract (technical and Administrative support for management and oversight of the funds)	\$7.333 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. States prepare DWSRF Intended Use Plans (IUPs)   | February - May 2009    |
| 3. Award of IA to IHS for tribal assistance   | May 2009               |
| 4. Issuance of Guidance on Award of Direct Grants   | May 2009               |
| 5. DC and Territories projects undergo NEPA review  | April – September 2009 |
| 6. State submission of grant applications to EPA  | March – September 2009 |
| 7. EPA awards grants  | March – October 2009   |
| 8. States certify to projects that are under contract or in construction by February 17, 2010 | February 24, 2010      |
| 9. EPA reallots funds for projects missing Feb. 17 deadline                                   | March 2010             |
| 10. State submission of full grant applications to EPA for reallotted funds                   | April 2010             |
| 11. EPA awards grants under reallotment   | 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 DWSRF 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 grants for the funds from the DWSRF. The grants awarded under the SDWA’s SRF program are required to comply with the National Environmental Policy Act, Pub. L. 91-190.

Drinking Water Indian Set-Aside (DWISA) 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 drinking water finance program, the DWSRF program supports the overarching goal of the National Water Program to protect public health through safe drinking water. Existing drinking water program outcome measures, reported annually in the Agency's Performance and Accountability Report, include:

Long-term Measure: Percent of population served by community water systems that receive drinking water that meets all applicable health-based drinking water standards through approaches including effective treatment and source water protection.

Annual Measure: Number of Drinking Water State Revolving Fund (DWSRF) projects that have initiated operations (cumulative).

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. Outcome results can be impacted by other factors, including new standards, and facilities can fund infrastructure projects from a variety of sources. 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:

10. Number of States that have awarded all of their 20 percent green project reserve
11. Number of ARRA projects that are under contract (non-tribal)
12. Number of ARRA projects for which Tribes have signed a Memorandum of Agreement with IHS for the project (tribal)
13. Number and ARRA amount (\$) of projects that have started construction (non-tribal)
14. Number and ARRA amount (\$) of projects that have started construction (tribal)
15. Number and ARRA amount (\$) of projects that have completed construction (non-tribal)
16. 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:

1. Fund utilization rate (cumulative loan agreement dollars to the cumulative funds available for projects) for the Drinking Water State Revolving Fund (DWSRF)
2. Number of Drinking Water State Revolving Fund (DWSRF) projects that have initiated operations (cumulative).

ARRA implementation could have an effect on the DWSRF 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. Our goal would be to achieve current fund utilization level of 89 percent in FY11 and then continue our path of progress.

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 increase in funds from ARRA, the efficiency measure, which is based on projects rather than population served, may not grow proportionally, due to ARRA's terms which may be more attractive to larger systems with higher cost projects and also because ARRA funds could be used for very large projects that have historically been too expensive for the DWSRF 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 Drinking Water State Revolving Funds, Section 1452 of the SDWA created an annual cycle of accountability in the DWSRF program. States are required, for the life of the DWSRF program, to submit a biennial report to EPA that communicates performance over the past two years. In addition, EPA conducts an annual review of each state's program, 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 DWSRF program. EPA is modifying its annual review checklist to ensure compatibility with ARRA requirements.

Section 1452(g)(4) also requires states to annually conduct a financial audit of the DWSRF fund accounts, through the Single Audit Act and for most states, through an independent program audit. These audits test a state's financial management system in place and can also provide reports on the internal controls and compliance of each DWSRF 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 DWSRF program (1997) 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 DWSRF 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 DWSRF 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 instance, EPA is requiring states to report data quarterly that will enable the Agency to monitor the percent of completion on an individual project basis.

For direct grants, 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. 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 DWSRF 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 DWSRF program, findings from annual reviews and site visits by Regional staff are reported to Regional management and corrective actions taken. EPA Headquarters conducts an annual review of Regional oversight. 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 DWSRF 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.

### 1) Federal Infrastructure Investments

While the DWSRF program does not invest in federal buildings or infrastructure, the DWSRF 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 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 six 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 this spring.