



Program Evaluation Report

Idaho Department of Environmental Quality
Drinking Water State Revolving Fund
State Fiscal Year 2014

January 2015

Executive Summary

The Idaho Department of Environmental Quality (IDEQ) Water Quality Program Office manages the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF) and a planning grant program, as well as other water quality programs. IDEQ has administered the Drinking Water State Revolving Fund since the program's inception in SFY 1998. In that year, the State received its first capitalization grant award of \$14,157,800 while the State deposited a matching contribution of \$2,831,560. Through the end of State Fiscal Year (SFY) 2014 Idaho has received \$169 million in capitalization grants and has provided \$35 million in state match.

The principal strengths of the Idaho DWSRF program continue to be:

- An experienced and highly capable group of DEQ professional staff. These people invest considerable time and effort in assisting potential loan applicants with the development of their projects, as well as oversight of the projects that are currently under construction with DWSRF financing.
- Demonstrated success at providing additional grant subsidies through the Disadvantaged Assistance Loan program to help struggling water systems maintain or achieve compliance with drinking water regulations.
- Impressive use of the DWSRF set-aside funds for a variety of innovative purposes. These uses include using set-aside funds to provide matching grants so that water systems can hire professional engineers to prepare facility planning documents in preparation for an infrastructure project, and using set-aside funds to identify potential threats to sources of drinking water, and then implement measures to better protect those drinking water sources.
- A strong partnership with local Councils of Government (COGs) to help borrowers with project management and implementation of some of the Federal requirements such as Davis–Bacon that now apply to the DWSRF program. More recently, Idaho reached out to the engineering community to help develop implementation guidance for the new American Iron and Steel (AIS) requirement.
- Successful voluntary Green Project Reserve (GPR) implementation. The GPR requirement ended for the DWSRF program after the FFY 2011 round of funding, but Idaho continues to encourage systems to incorporate GPR. During SFY 2014 the state achieved more than \$3.8 million in GPR related activities from the projects that were financed by the DWSRF program. This is an important accomplishment toward helping water systems become more sustainable.

In the Program Evaluation Report (PER) for the last couple of annual reviews EPA has raised no new issues. During the SFY 2014 annual review that occurred in October 2014, we discussed the lower loan demand, transfers to the CWSRF program, use of administrative fees, decreased utilization of set-asides, and increased clarity about which borrowers are considered 'disadvantaged'.

Loan Demand: For the last two fiscal years, Idaho's pace of committing available loan funds has been lower than in the recent past. If the trend continues into the future, the Idaho DWSRF will likely encounter problems related to fully expending capitalization grant funds within the recently abbreviated timeframe of 24 months.

Transfers: One strong indication of Idaho's need to address low loan demand is the \$10 million transfer from the DWSRF to the CWSRF in October 2014. While the transfer is clearly an eligible activity, and does address two short term needs – meeting higher loan demand in the CWSRF, and removing unneeded funds from the DWSRF – it fails to address the longer term issue of loan demand. If a lasting fix isn't found to increase loan demand on the DWSRF side, it is likely that in the next few years another transfer will be required and that ULOs will become an issue.

Use of Fees: Idaho has been charging administrative fees for a few years in the CWSRF program, and for a shorter period of time in the DWSRF program. The state is now exploring the use of this fee income from the two SRF programs as a potential source of state match. EPA Region 10 is currently working on a letter that would explain the mechanism by which fee income could be used for match.

Use of Set-Asides: Due to the new requirement to fully expend capitalization grants within 24 months of award, Idaho is considering reserving less set-asides from each year's grant, and transferring previously reserved set-asides to the Loan Fund. EPA is working with each state to implement the DWSRF ULO reduction strategy, and Idaho's planned actions are right in line with this strategy.

Clarity on Disadvantaged Assistance: From program inception, up to 30% of each DWSRF capitalization grant has been eligible for use as additional subsidy. Since ARRA, however, state DWSRF programs have been required to provide at least some minimum amount of additional subsidization. While it isn't expressly required, most states (including Idaho) use their disadvantaged assistance criteria to determine which systems are eligible for extra subsidization. To assist in EPA's review of Idaho's disadvantaged assistance program, it would be helpful to have a clearer identification of those borrowers.

Introduction

This Program Evaluation Report (PER) summarizes the results of an annual review of the Idaho Drinking Water State Revolving Fund (DWSRF) conducted by the Environmental Protection Agency (EPA) for State Fiscal Year (SFY) 2014. The review is based on several critical elements:

1. The Intended Use Plan (IUP) for the SFY 2014 Idaho DWSRF program.
2. The SFY 2014 Annual Report for the Idaho DWSRF, covering the period from July 1, 2013 to June 30, 2014 (SFY 2014).
3. An analysis of data for State Fiscal Year 2014 submitted by Idaho DWSRF staff and maintained in EPA's Drinking Water National Information Management System (DWNIMS).
4. An analysis of project data for State Fiscal Year 2014 submitted by Idaho DWSRF staff and maintained in EPA's Drinking Water Project and Benefits Reporting (PBR) system.
5. An on-site discussion of the DWSRF program with IDEQ staff, and a review of project files on October 27-29, 2014.
6. The SFY 2013 Individual Entity Audit Report completed by the Idaho State Legislative Services Office.

IDEQ Program Summary

The Idaho Department of Environmental Quality has administered the Drinking Water State Revolving Fund since the program's inception in SFY 1998. In that year, the State received its first capitalization grant award of \$14,157,800 while the State deposited a matching contribution of \$2,831,560. Through the end of SFY 2014, the EPA has awarded \$169,677,324 in capitalization grants and the state has deposited \$35,035,465 in matching contributions, for a total of \$204,712,789 in initial capitalization. The total value of the capitalization for the DWSRF will increase every year due to the interest that the DWSRF earns on its loan portfolio as well as on its invested cash balance. Table 1 below shows a history of Federal capitalization and grant-by-grant expenditure information for the Idaho DWSRF.

Table 1: Idaho DWSRF Federal Capitalization Summary					
Grant #	Grant Amount	Total Draws thru June 30, 2013	Draws during SFY 2014	Total Draws thru June 30, 2013	Undrawn Funds (ULO) at June 30, 2014
FS-980030-97	14,157,800	14,157,800	-	14,157,800	-
FS-980030-98	7,121,300	7,121,300	-	7,121,300	-
FS-980030-99	7,463,800	7,463,800	-	7,463,800	-
FS-980030-00	7,757,000	7,757,000	-	7,757,000	-
FS-980030-01	7,789,100	7,789,100	-	7,789,100	-
FS-980030-02	8,052,500	8,052,500	-	8,052,500	-
FS-980030-03	8,004,100	8,004,100	-	8,004,100	-
FS-980030-04	8,303,100	8,303,100	-	8,303,100	-
FS-980030-05	8,285,500	8,285,500	-	8,285,500	-
FS-980030-06	8,229,300	8,229,300	-	8,229,300	-
FS-980030-07	8,229,000	8,229,000	-	8,229,000	-
FS-980030-08	8,146,000	8,146,000	-	8,146,000	-
2F-960884-01	19,500,000	19,500,000	-	19,500,000	-
FS-980030-09	8,146,000	8,146,000	-	8,146,000	-
FS-980030-10	13,573,000	12,870,045	702,955	13,573,000	-
FS-980030-11	9,418,000	6,943,132	1,866,831	8,809,963	608,037
FS-980030-12	9,080,824	2,602,900	4,236,291	6,839,191	2,241,633
FS-980030-13	8,421,000	-	4,560,620	4,560,620	3,860,380
Total	169,677,324	151,600,577	11,366,697	162,967,274	6,710,050

Source: (EPA's Compass Data Warehouse)

DWSRF Public Health Benefits

The DWSRF program is, first and foremost, a government funded infrastructure financing program designed to provide significant public health benefits by ensuring delivery of clean and safe drinking water. The majority of each year's capitalization grant is used to provide low interest loans to public water systems to help them maintain, or return to, compliance with drinking water regulations. The table below illustrates Idaho's success in delivering these benefits since program inception in 1998.

Table 2: Idaho DWSRF Public Health Benefit Summary (1998-2014)			
Categories of Assistance	# Loans	\$ Loans	Population
Assisting Non-Compliant Systems Achieve Compliance	41	\$ 100,610,639	73,072
Assisting Compliant Systems Maintain Compliance	40	\$ 89,526,990	182,598
Assisting Compliant Systems to Meet Future Requirements	2	\$ 600,922	480
Total:	83	\$ 190,738,551	256,150

Source: (DW NIMS)

The other very significant piece of helping public water systems deliver clean and safe drinking water is the DWSRF set-asides. Up to 31% of each year's DWSRF capitalization grant can be reserved for direct grant funding by the state for such purposes as DWSRF administration and technical assistance (4%), small systems

technical assistance (2%), state program management, including PWSS program supplemental funding (10%), and state and local assistance (15%). Idaho experienced significant turnover and reductions in drinking water staffing during 2014. Consequently, these changes have delayed implementation of some of the capacity development and small system technical assistance initiatives funded by the DWSRF set-asides.

For 2015, the EPA and DEQ will work together to improve capacity development reporting including describing measurable results from the program. EPA will also provide a template for reporting when it becomes available. Further, DEQ intends to complete the update to their technical, financial, and managerial (TFM) guidance document to support training by third party providers, among other things. DEQ believes the TFM guidance document will be the foundation to spur growth in their capacity development program.

Below are some highlights from activities undertaken with Idaho DWSRF set-aside funding:

Set-Aside Activity Highlights

- Completed 133 source water assessment reports, of which 47 were new assessments with delineations and 86 were updated assessments.
- Helped 4 communities develop state certified drinking water protection plans and assisted 2 counties with regional planning efforts. DEQ also reviewed and certified/recertified 5 plans for systems who were assisted by Idaho Rural Water Association. These systems were targeted because of their ETT scores combined with source water issues. This brings the total population of Idaho residents with source water protection to over 656,400 people.
- Provided 6 full day training workshops for 239 attendees. Also, DEQ developed a Source Water Protection Activity Guide, an online tool used to identify potential sources and types of contamination that could threaten drinking water sources.
- Awarded 12 grants totaling \$113,000 in funding for source water protection projects. DEQ also managed approximately \$250,000 in previously awarded grants and contracts.
- Completed 413 plan and spec reviews and 432 enhanced sanitary surveys. The majority of technical assistance provided to public water systems occurs during these activities.
- Continued improvements to the in-house SDWIS QA/QC tool to ensure high data quality. DEQ depends on this information to provide

effective technical assistance and capacity development. According to the National Data Quality Matrix, Idaho is third in the nation for data quality.

- Continued reductions in the enforcement targeted tracking (ETT) list through technical assistance, capacity development, infrastructure loans, and compliance activities. The number of systems on the Idaho ETT list has decreased by 31% since 2010.

Sustainability: GPR/Climate Change/Extreme Weather/Adaptation/Resiliency

The DWSRF program's primary and overarching mission of delivering public health benefits has been in place since program inception. More recently, however, the DWSRF program has been encouraged to branch out into funding loans (and providing set-aside funding for) projects or activities under the broad umbrella of sustainable infrastructure.

Typically this activity occurs when a project is needed to address an existing public health problem. In the course of addressing that problem, the borrower often installs a newer, more energy efficient water pump, meter, or some other type of device. Or if the project is rehabilitating a leaking water reservoir, water main, or installing new water meters, the water system will very likely see an improvement in water conservation. There are also many non-project activities, funded by set-asides, whereby water systems can become more sustainable. These include water audits, energy audits, facility planning grants, long-term resiliency planning, source water protection grants, among others. In addition, the DWSRF's complementary program, Capacity Development, has since program inception in 1998 been helping water systems deal with sustainability issues by developing or maintaining their Technical, Financial, or Managerial capacity.

For a couple of years after ARRA, the DWSRF program was required to provide a prescribed amount of funding for GPR activities. However, even though this requirement ended in 2011, the Idaho DWSRF has voluntarily continued to encourage GPR funding. As noted in the Executive Summary, during the most recent period, a total of \$3.8 million in GPR funding for projects was recorded.

The Project Fund

The Idaho DWSRF is operated as a direct loan program. Through the end of SFY 2014 it had \$227,582,623 (Federal Grant Funds + State Match + Loan Repayments and Interest Earnings – Set-Asides) available for providing loan assistance to public water systems. Through the end of the same time period it had executed binding commitments for a total of 88 projects with a cumulative assistance amount of \$198,490,335. It thus had committed 87% of the available funds. That was again less than the national average of 93% for this same time period. Nevertheless, the Region 10 DWSRF program continued to maintain the highest fund utilization rate in the country.

New Programmatic Requirements

Additional Subsidy Reserve: Beginning with ARRA in 2009, each state is now required to provide at least a minimum amount of additional subsidy (grant) funding to borrowers. The table below shows Idaho's performance to date at meeting this requirement. For the older grants (2010 and 2011) that show a shortfall on subsidy commitment and/or expenditure, Idaho is in the process of sending out amendments to increase the subsidy component of outstanding loans.

Table 3: Idaho DWSRF Additional Subsidy Reserve Performance (2009 - 2014)						
Grant #	Grant Amt	ASR % (req)	ASR \$ (req)		ASR \$ committed	ASR \$ expended
2F96088401	\$ 19,500,000	at least 50%	\$ 9,750,000		\$ 9,750,000	\$ 9,750,000
FS98003010	\$ 13,573,000	at least 30%	\$ 4,071,900		\$ 3,867,562	\$ 3,161,132
FS98003011	\$ 9,418,000	at least 30%	\$ 1,883,600	\$ 2,825,400	\$ 2,774,969	\$ 2,216,330
FS98003012	\$ 8,975,000	at least 20%, no more than 30%	\$ 1,795,000	\$ 2,692,500	\$ 2,692,800	\$ 1,435,817
FS98003013	\$ 8,421,000	at least 20%, no more than 30%	\$ 1,684,200	\$ 2,526,300	\$ 1,795,000	\$ 548,791
Totals:	\$59,887,000		\$19,184,700	\$21,866,100	\$20,880,331	\$17,112,070

Source: (PBR, state reported data)

Davis-Bacon Wage Rates: Also starting with ARRA in 2009 and continuing to apply to the DWSRF program, each state is required to ensure that all loan contracts with borrowers, and the subsequent construction contracts between borrowers and contractors contain the correct language about Davis-Bacon wage rates. This language is intended to ensure that all construction workers are being paid the appropriate wages for the type of work they are doing. To help many of the smaller DWSRF borrowers comply with this requirement, Idaho has encouraged them to coordinate with Councils of Government. This arrangement seems to be paying dividends in terms of oversight and compliance, and other states in Region 10 are considering using the same approach.

Unliquidated Obligations (ULOs): Because the amount of DWSRF Unliquidated Obligations (ULOs) was deemed to be too high, EPA, in conjunction with ASDWA and CIFA and other state organizations, developed a ULO reduction strategy. This strategy says that, starting with the FFY 2014 capitalization grant, states are now expected to fully expend new capitalization grants within 24 months of award. In addition, all remaining grant funds awarded prior to FFY 2014 (defined now as "legacy" funds) are required to be expended by September 30, 2016. The table below shows Idaho's performance at meeting this requirement.

Table 4: Idaho DWSRF ULO Status (as of 11/6/14)	
ULO %	2%
Legacy Funds Remaining	\$ 3,696,773
Projected time to expend legacy funds	4 months
Projected time to expend legacy, FFY 14 and partial 15 grant funds	17 months

Source: (EPA HQ ad hoc reporting on ULOs)

American Iron and Steel: As noted in previous PERs, a Buy American requirement applied to all projects using DWSRF ARRA funds. After ARRA, successive grants contained no similar language until the FFY 2014 appropriation bill imposed a new requirement, called American Iron and Steel (AIS). This requires DWSRF assistance recipients (borrowers) to use iron and steel products that are produced in the U.S. for their water system projects. This requirement was effective January 17, 2014 through September 30, 2014. However, because EPA is still operating under a Continuing Resolution (CR) during FFY 2015, AIS continues to apply. Idaho has made sure that the correct AIS language is being incorporated into loan contracts and construction contracts. To date, no issues with AIS implementation have been reported.

Interest Rates

The Idaho DWSRF currently sets loan rates once a year. The basic interest rate for SFY 2014 was 2.25%. However, during this period the majority of loans signed by the state were disadvantaged assistance loans. As a result the average loan rate continued to be lower than other Region 10 states as well as the national average. The term for DWSRF loans is capped at 20 years, with the exception of disadvantaged loans, which may have up to a 30-year term, and an interest rate as low as 0%. Idaho made five disadvantaged loans during this period.

Table 4 below compares Idaho's DWSRF weighted average loan rates with the rates of other Region 10 DWSRF programs, as well the average loan rate of all DWSRF loan programs in the nation. The table below shows that Idaho's average loan rate is comparable to other states in Region 10 and slightly lower than the national average.

Table 5: Region 10 DWSRF Comparative Weighted Averaged Loan Rates			
State	State Fiscal Year		
	2011	2012	2013
Alaska	1.50%	1.50%	1.50%
Idaho	0.29%	0.396%	1.53%
Oregon	2.16%	2.34%	1.53%
Washington	1.25%	1.00%	1.39%
National Average	2.08%	1.89%	1.78%

Source: (DW NIMS)

State Match [40 CFR §35.3550(g)]

The State of Idaho contributes match from appropriations approved by the state legislature. The table below shows the match contributions that Idaho has made to its DWSRF, including the contributions made during SFY 2014. Idaho continues to meet the matching requirement.

Table 5: State Match Compliance						
	Total Capitalization Grants at 6/30/13	Total State Match at 6/30/13	State Match %	Total Capitalization Grants at 6/30/14	Total State Match at 6/30/14	State Match %
Period						
Totals	161,256,324	33,351,265	21%	169,677,324	35,035,465	21%

Source: (DW NIMS)

Program Pace and Perpetuity

The following tables demonstrate Idaho’s performance at utilizing DWSRF funds expeditiously as well as protecting the corpus of the Fund. First, one can look at the portion of available funds that have been committed to loans. Review of the past three years of the Idaho program’s pace shows the following:

Table 6: Loans as a % of Funds Available (Fund Utilization Rate)			
SFY	Total Project Funds Available*	Total Loans	Loans as a % of Funds Available
12	\$183,545,686	\$175,880,813	96%
13	\$212,238,172	\$184,459,364	87%
14	\$227,582,623	\$198,490,335	87%

* Total includes Federal Grant+State Match+Repayments-Set-Asides.

Source: (DW NIMS)

The short term trend over this three-year period shows a decline in the percentage of available funds that are being used to provide loans. For SFY 2014, Idaho again trailed the national average of 93% for this measure. The surfeit of available funds relative to the demand for those funds was the primary factor for the \$10 million transfer from the DWSRF to the CWSRF last month. If loan demand remains low in the long term, this could present a problem with Idaho’s ability to meet the ULO reduction strategy.

However, another measure of pace looks at how quickly states are spending the grants awarded to them. As shown in Table 7 below, Idaho's cumulative outlays from the Federal Treasury (cash draws for DWSRF loans and the set-asides), increased from 93% over the previous two years, to 95%. The national average for this measure was 92%. So in the short term, it appears that Idaho is on pace to meet the ULO strategy.

Table 7: Cumulative Outlays as a Percent of Cumulative Grants			
SFY	Cumulative Grants	Cumulative Outlays	Ratio
12	\$152,175,500	\$141,577,983	93.0%
13	\$161,256,324	\$150,147,687	93.1%
14	\$169,677,324	\$161,514,374	95.2%

Source: (DW NIMS)

Another consideration is whether or not the Idaho DWSRF program can continue offering low-interest financing into the foreseeable future. That important question is discussed and evaluated in this section.

Table 8 below looks at the rate of growth of the Idaho DWSRF project loan fund over the past three years, compared to the Engineering News-Record's Construction Cost Index (CCI).

Table 8: Loan Yield				
SFY	Loan Interest Earnings	Average Loans Outstanding	Rate of Return	CCI
2012	2,058,876	107,956,860	1.9%	2.6%
2013	1,738,317	103,687,397	1.7%	2.5%
2014	1,402,668	102,888,258	1.4%	2.6%

Source: (Annual Report financial statements, ENR)

Over the last three years the rate of return on the loan portfolio has been declining. In addition, in all three years the CCI inflation rate has been higher than Idaho's loan yield. Losses in the Fund's buying power **can** be offset by earnings from Fund investment interest to protect the Fund corpus from eroding. The table below describes this yield over the same time period. A higher yield rate earned on the invested balances (loan interest payments, loan repayments, and interest earnings) can help to offset the potential for inflationary losses from low loan yields.

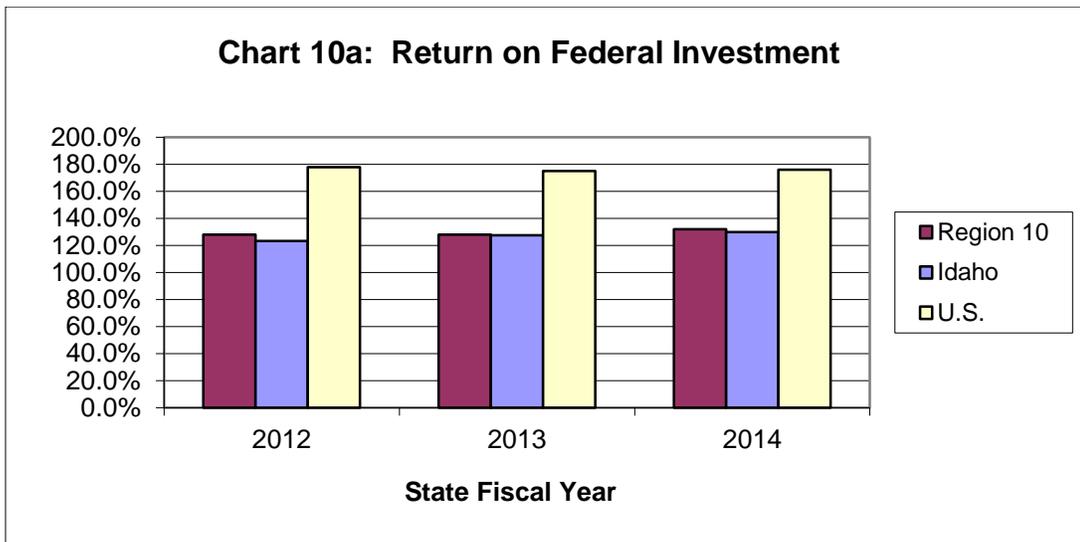
Table 9: Investment Yield			
SFY	Investment Interest Revenue	Average Investment Assets	Yield Rate
2012	510,543	17,027,322	3.0%
2013	577,582	26,767,528	2.2%
2014	825,608	34,511,239	2.4%

Source: (Annual Report financial statements)

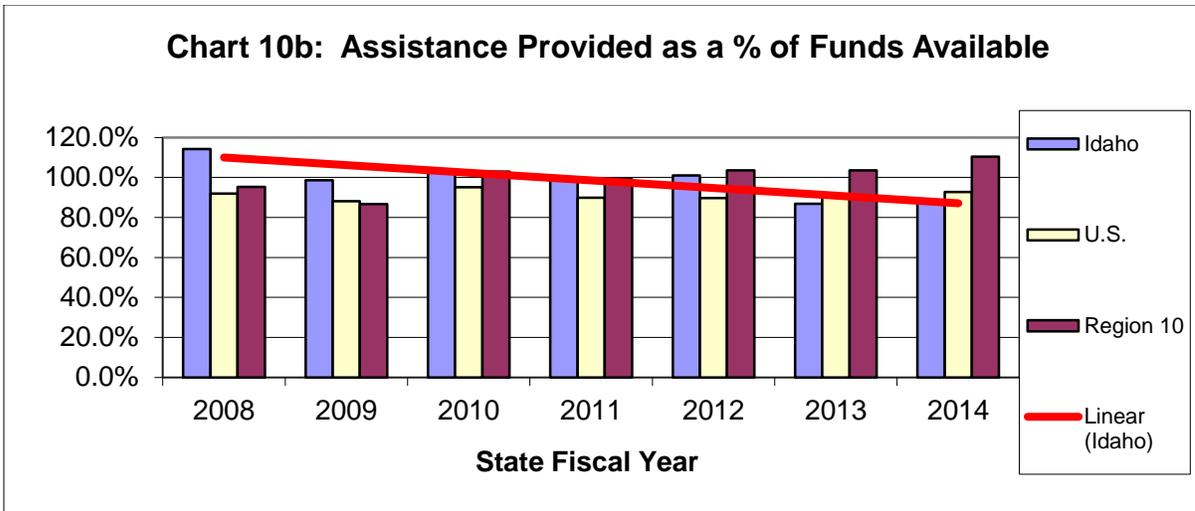
The yield on Idaho's invested DWSRF balances over the last three years has continued to outpace the loan yield. As long as this trend continues, the program can subsidize a lower loan yield with higher investment earnings and not experience significant erosion of the Fund.

Financial Measures

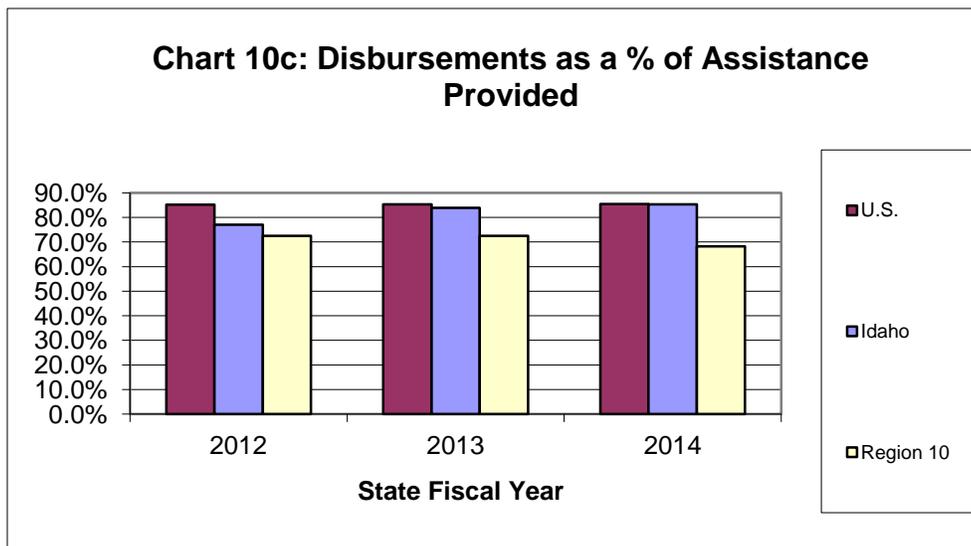
EPA uses a set of financial and programmatic measures for the DWSRF. These measures are (a) Return on Federal Investment, (b) Assistance Provided as a % of Funds Available, (c) Loan Disbursements as a % of Assistance Provided, (d) Net Return/(Loss) after Repaying Match Bonds and Forgiving Principal (Excluding Subsidy), (e) Net Return on Contributed Capital (Excluding Subsidy), and (f) Set-Aside Spending Rate. The current results for each measure for Idaho, along with a baseline comparison, can be found in the section that follows.



This measure is calculated by dividing the funds disbursed for DWSRF loans by the Federal cash draws for DWSRF loans. In general, the Return on Federal Investment (ROFI) should be at least 120%. Through the period Idaho has made steady improvement in this measure, topping the threshold level for the last three years. This compares to a national return of 176%.

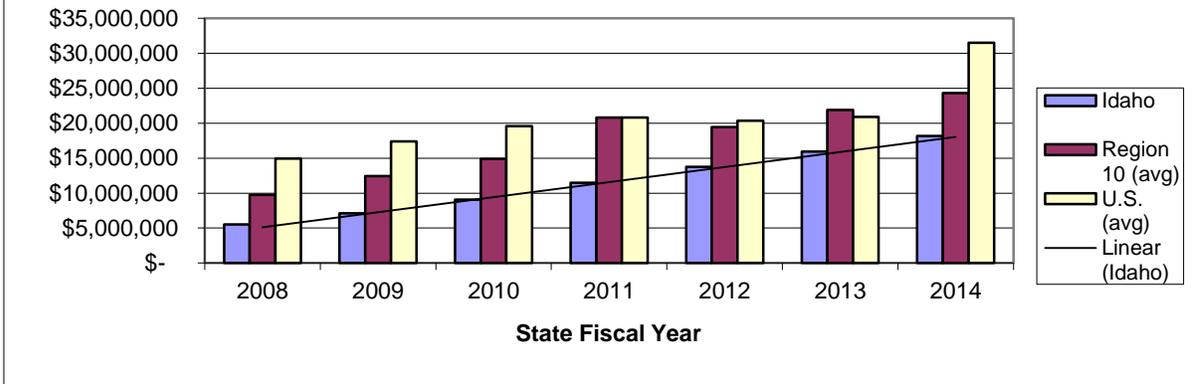


The measure shown in Chart 10b is calculated by dividing the total dollar amount of DWSRF loans by the total amount of funds available for loans. It shows how effectively a state is making loans with the money that is available for loans. Depending on the aggressiveness of a state’s cash flow strategy, this measure can exceed 100%. The chart above shows Idaho’s performance and trend over the past seven fiscal years. While Idaho’s performance has been good, the trend over the time period continues to point downward. While this has been due partly to a lack of demand for loans, the state has also received some unexpected early payoffs on loans due to competition from other funding programs. Regardless of the cause, this indicates a need to commit additional funds to loans, or like what occurred in October, a funds transfer to the CWSRF.



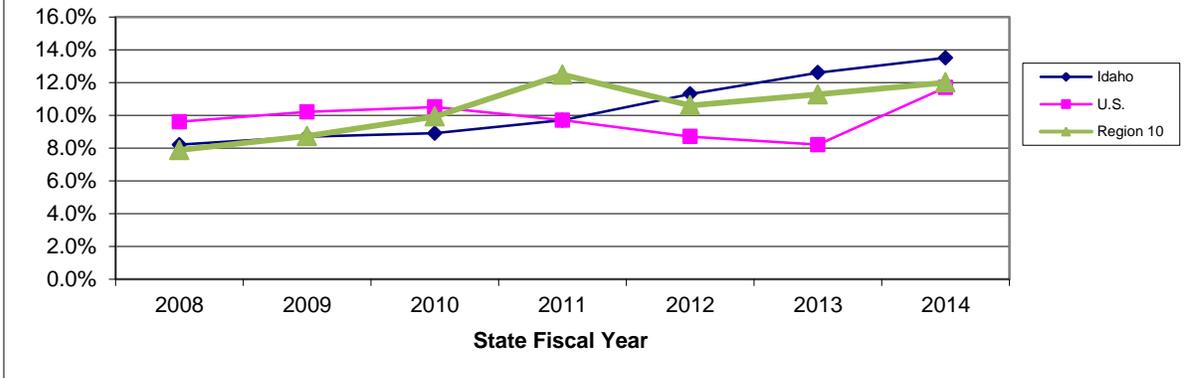
The next measure, illustrated in Chart 10c above, shows the speed at which funds from signed loans are disbursed to systems for project construction expenses. It is calculated by dividing the total loan disbursements by the total dollar amount of loans. Idaho’s performance on this measure improved from 77% to 85% over the last three years, which compares quite well to the current national average of 86%.

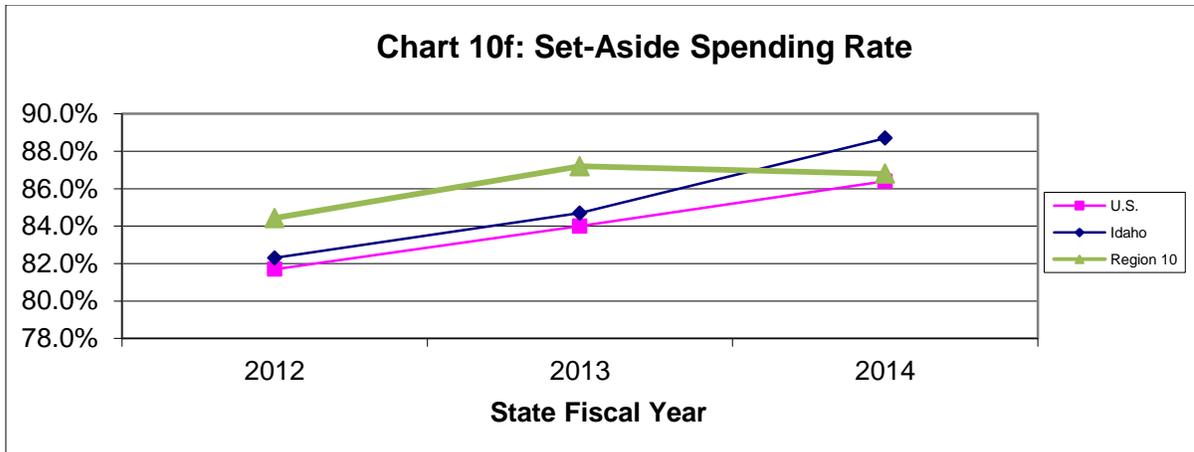
Chart 10d: Net Return/(Loss) after Repaying Match Bonds and Forgiving Principal (Excluding Subsidy)(\$)



Because ARRA and subsequent capitalization grants have carried the requirement to forgive significant amounts of loan principal, EPA created two new measures to look at fund growth excluding the portion of each capitalization grant that is not intended to revolve. As demonstrated in the measure above, Idaho's growth rate for the past seven years has shown a strongly positive growth trend, much like the Region 10 and national average. In the chart below, Idaho's return rate trailed the national average 5 years ago, but over the last three years has outpaced the national and regional average.

Chart 10e: Net Return on Contributed Capital (Excluding Subsidy)(%)





This measure, shown in Chart 10f above, shows how quickly set-aside funds reserved by each state are being utilized. It is calculated by dividing the total amount of set-asides awarded by the total amount of set-asides expended. Over the last three years Idaho's set-aside spending rate has continued to improve and now at 89% exceeds the national average of 86%.

Cash Draw Rules [40 CFR §35.3560]

The DWSRF regulations require that cash disbursed to borrowers be drawn proportionately from the EPA capitalization grants and the state's matching contributions. Because set-aside use, as well as other factors may have an impact on proportionality, states are given considerable flexibility to choose the proportionality calculation method that works best for them. The Idaho DWSRF uses the grant-specific method. Under that method, cash draws for loan funds were to be drawn from the initial FFY97 grant at the proportional rate of 81% Federal to 19% State, with cash draws from subsequent grants having slightly different proportionality rates depending on the amount of set-asides taken. The Idaho DWSRF program is in full compliance with this requirement through SFY 2014.

Set-Aside Transaction Reviews

As part of the annual review process EPA conducted transaction testing of a sample of 8 set-aside cash draws (for a combined total of \$227,192) made during the period. Please provide responses to questions about several of the transactions summarized in the attached Excel document [Transaction Testing Worksheet (Set-Asides ID 14)].

- Transaction #1, there was a payment in the amount of \$5 to the "Association of Idaho Cities". Please explain what this was for. **IDEQ response: This charge was for employee parking costs.** Also, please explain the purpose for the two charges (in the amounts of \$19.69 and \$20.88) for "EAN services." **IDEQ response: These charges were for Enterprise rental car use.** Finally, the total amount invoiced in this transaction was \$23,174.56. Based on the rounding rules used by IDEQ for set-aside transactions, this

amount should have been rounded up to \$23,175. Please explain why this cash draw was rounded down instead of up. **IDEQ response: The draw amounts are rounded to the nearest dollar each time a draw is made. Since the previous draw was also rounded, the actual cash balance for this draw was \$23,174.16.**

2. Transaction #2, please explain the purpose for the -\$27.87 adjusting entry/credit with a description of "CUR YR RFD/OFFICE MAX." **IDEQ response: The \$27.28 refund was due to money given back to DEQ for office supplies that were returned to Office Max.**
3. Transaction #3, there were several adjusting entries (totaling -\$45,568.59) for previous payments to four Health Districts, along with a contract payment to the **Panhandle Health District**. The adjusting entries all carried the description "move from SDWIS to Fees." What appears to be problematic with this transaction is that the only Health District permitted to receive set-aside funds during this period was Panhandle Health. Please provide clarification as to whether or not the four Health Districts and any other Health Districts were funded (even temporarily) out of the set-aside, as well as the amount of funding involved. **IDEQ response: The original contractual payments were miscoded to the SDWIS grant (10% State Program Management set-aside). As soon as this was discovered the adjustment was made to move them to the correct funding source.**
 - a. This transaction will be reported to OMB as an improper payment.
4. Transaction #4, please explain the reason for the -\$23.24 adjustment for travel expenses. **IDEQ response: \$23.24 was issued in a warrant for travel expenses. The \$23.24 negative was due to the warrant being lost, cancelled and it was subsequently reissued.**
5. Transaction #5, there was an adjusting entry for -\$412.60 described as "post pend & adjustment process" – please explain what this is for. **IDEQ response: Anything that shows "post pend and adjustment process is a transaction from the State of Idaho purchasing card automated program. The \$412.60 is offset by the same amount two lines down on the transaction sheet so this charge wasn't actually drawn. Once final processing occurred on this amount, the actual charge was for eligible employee travel.** Also, as noted in #1 above, please explain the purpose for a \$45.67 charge for "EAN services." **IDEQ response: This charge was for Enterprise rental car use**
6. Transaction #6, please provide an explanation/justification for the following IDEQ staff member (**Bill Hart**) being paid out of the Capacity Development set-aside. **IDEQ response: Bill Hart processes reimbursements for the drinking water planning grants, funded by**

the Capacity Development set-aside. Planning grants administration and the actual planning grant payments are an approved activity in the Capacity Development work plan. Please also explain the \$149.43 payment to **BSU** for “**design/media charges**”, as well as the adjusting entry for -\$14.30 denoted as “**PRR-Labor/Gardner, David.**” ***IDEQ response: We paid Boise State University \$149.43 for the printing of grants and loans post cards. The total cost of these cards was split between both Loan and Planning Grant programs. The \$14.30 was due to DEQ receiving \$14.30 in reimbursements for costs incurred regarding a public information request.***

7. Transaction #7, please explain the purpose for the \$827.47 payment to the **University of Idaho Bursar**. ***IDEQ response: \$827.47 was paid to the University of Idaho for a contract associated with Source Water Protection.***
8. Transaction #8, please explain the purpose for the two payments (\$4,827.30 and \$4,466.81) to **Idaho Rural Water Association**, as well as the \$399.99 payment to **Resource Data Inc**. ***IDEQ response: The two payments to IRWA were for services rendered under the Source Water Protection contract. The payment to Resource Data is a contractual payment for Source Water website development.***

HQ-Mandated Transaction Testing

In October EPA HQ announced additional required transaction testing for the DWSRF programs nationwide. For the Idaho DWSRF, this requirement translated into one additional transaction for a total of \$662,027 that needed to be tested.

The cash draw for \$662,027 was taken from grant #FS980030-13 on August 27, 2014. The draw was to pay EPA’s proportional share of the cost to pay for three loan disbursements, to **Fernwood Water and Sewer District, Alpine Meadows Water and Sewer**, and to the **City of Paris**. The total disbursement request came to \$853,919, and EPA’s share based on a proportionality ratio of 77.5281%, was the amount listed above, \$662,027.

Comments:

1. Part of the \$30,589 disbursement request from **Alpine Meadows** was for a \$500 payment to the **Idaho Department of Water Resources** for a “Transfer Application Fee.” Please explain what this is. ***IDEQ response: The transfer application fee was charged by IDWR for an application to add a point of diversion under a vested water right, which is required under Idaho state law.***

Region Selected Loan Transaction Testing

During the onsite review two additional loan transactions were selected from the group of projects selected for file reviews.

The first transaction was a \$73,062 loan disbursement request from the **Blackhawk Homeowners Association**.

On September 10, 2014, the borrower submitted payment request #4 for the period of July 19, 2014 to September 9, 2014. The payment request sought reimbursement for payments to Williams Engineering, Performance Systems, Inc., and DJ Power Consulting, Inc.

The subsequent cash draw for \$56,644 was taken from grant #FS980030-14 on October 19, 2014.

Comments: The payment to Performance Systems, Inc. was primarily for project construction activities and materials, but also included a \$7,300 charge for “bonds”. Please explain what this means. **IDEQ response: *This is the cost of the payment and performance bonds that are required in order to indemnify the owner against failure of the general contractor to pay his suppliers and subcontractors.***

The second transaction was a \$297,429 loan disbursement request on April 2, 2014 from **Fairview Water District**.

Payment request #1 was for 18 months’ worth of engineering services for planning and design that had been provided by Project Engineering Consultants, Ltd. prior to the loan being signed. The payment was made with second round funds, so there was no subsequent cash draw.

Comments: Please clarify whether or not there were any invoices from Project Engineering Consultants, Inc. for the months of March and April 2013. **IDEQ response: *There were no invoices for those two months.***

Generally Accepted Accounting Principles (GAAP) [40 CFR §35.3135(h)]

The states are required to follow Generally Accepted Accounting Principles in maintaining the financial records for their Drinking Water State Revolving Funds. Idaho follows GAAP in the maintenance of its records. The language of the standard loan contract requires borrowers to follow GAAP in the maintenance of their financial records. Loan recipients are required to submit annual financial statements to the Idaho State Legislative Services Office (LSO). These financial statements are available for DWSRF staff to review, beyond the review that is supposed to be provided by the LSO staff.

Reports and Audits [40 CFR §35.3570]

Reporting

The state does three types of reporting to EPA on the progress of the Idaho DWSRF. First, every year it completes a data report that is entered into EPA’s Drinking

Water National Information Management System (DWNIMS) for the Drinking Water Revolving State Fund. The report for SFY 2014 was submitted and EPA incorporated that data in the final DWNIMS national data set that was presented at the Council of Infrastructure Financing Authorities (CIFA) Conference in November 2014 in Portland, Oregon. The DWNIMS national data was distributed on CD-ROM at the CIFA meeting, and is available on the Internet at the EPA HQ Office of Groundwater and Drinking Water's DWSRF website at: <http://www.epa.gov/safewater/dwsrf/dwnims.html>. The Idaho portion of that data set is the basis for much of this PER. Second, Idaho is required to report project level data on more of a real-time basis into EPA's Drinking Water Project and Benefits Reporting (PBR) System. Finally, Idaho's capitalization grants require the state to submit an annual report by October 30 every year. Idaho met this final requirement by submitting the SFY 2014 annual report on October 22, 2014.

Audits

Under EPA's audit guidance, each state is strongly encouraged to conduct a separate, annual audit of the DWSRF programs. In the Drinking Water SRF Operating Agreement between EPA and IDEQ, there is a provision for an annual audit by staff auditors from the Legislative Services Office. During the past several years, including SFY 2014 the Idaho DWSRF program has undergone an annual audit. The Idaho LSO auditors completed the field work for the SFY 2013 audit and issued the final audit report on March 21, 2014. There were no audit findings. At the time of this review the audit for SFY 2014 was still pending.

With regard to the A-133 audits that are required of DWSRF borrowers that expend more than \$500,000 in Federal funds in a fiscal year, IDEQ has a standard loan condition that addresses this audit requirement. In addition the state provides annual guidance to borrowers about how much in Federal funds they received during the period.

Review of Project Management Practices

The 1996 SDWA Amendments and the DWSRF program regulations also contain a series of requirements that address how the Drinking Water State Revolving Fund programs are to manage projects that receive loans and how those projects are to be planned and constructed. EPA's review of those aspects of the Idaho DWSRF program for SFY 2014 is discussed in this section of the Program Evaluation Report.

Eligible Activities [40 CFR §35.3525]

The 1996 SDWA Amendments require that Drinking Water State Revolving Funds limit themselves to providing specific types of financial assistance (in addition to the assistance provided through the set-aside programs). Those five types of assistance, defined in the Safe Drinking Water Act include:

1. Loans at or below market rates (as low as 0%) to finance publicly and privately-owned drinking water infrastructure projects;
2. Assistance to disadvantaged communities, including principal forgiveness, negative interest, for a loan term up to 30 years in length;
3. Buying or refinancing the local debt obligations of municipalities and intermunicipal and interstate agencies within the State at or below market rates, where such debt obligations were incurred and SDWA-eligible construction started after July 1, 1993;
4. Guaranteeing, or purchasing insurance for, local obligations where such action would improve credit market access or reduce interest rates for SDWA-eligible assistance; and
5. Providing a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of such bonds will be deposited in the Fund.

Since the last on-site review the Idaho DWSRF has issued seven new loans and loan increases on six existing loans for a total of \$14,030,971 to provide the type of assistance allowed by the Safe Drinking Water Act and the program regulations. The reduced interest rates offered for these projects will save ratepayers in these Idaho communities a significant amount of finance charges over the life of the loans. File reviews of three of these projects were conducted during EPA's annual review on October 27 – 29, 2014.

Intended Use Plan Development [40 CFR §35.3150]

Each Drinking Water SRF program is required to prepare a plan identifying the intended uses of the funds in its SRF and describing how those uses support the goals of the SRF. This Intended Use Plan (IUP) must be prepared annually and must be subjected to public review and comment before being submitted to EPA. EPA must receive the IUP before the capitalization grant can be awarded.

The Idaho DWSRF program submitted a SFY 2014 IUP in June 2013. This IUP was accepted and served as the basis for the award of the capitalization grant available from the FFY 2013 allotment.

Achievement of Goals and Objectives

The SFY 2014 Intended Use Plan spelled out goals for the Idaho Drinking Water State Revolving Fund. Those goals can be found below.

The Intended Use Plan stated six long-term goals for the program:

1. Protect public health of citizens served by drinking water systems by offering financial assistance to construct the most cost-effective drinking water facilities. Financial assistance includes below-market-rate loans, longer loan terms, and may include principal forgiveness for disadvantaged communities under limited circumstances.
2. Assist public water systems in achieving and maintaining statewide compliance with federal and state drinking water standards. DEQ will provide information and technical assistance in the form of brochures and the electronic Drinking Water Blog, which contains articles on such topics as the DWSRF, operator training and certification, and ground water under the direct influence (GWUDI) monitoring and treatment technology.
3. Implement a capacity development strategy. The goal of the capacity development program is to ensure that our current capacity to deliver safe, reliable water is not only maintained but is expanded to meet future needs. This goal is facilitated by supporting public water systems in maintaining and expanding their technical, financial, and managerial capacity.
4. Implement a source water assessment and protection strategy. A source water assessment provides information on the potential threats to public drinking water sources. In Idaho, 96% of the drinking water comes from ground water sources.
5. Manage the Idaho DWSRF to ensure its financial integrity, viability, and revolving nature in perpetuity.
6. Entering into SFY 2013, there has emerged an imbalance in the DWSRF and CWSRF loan funds' ability to serve the state's needs. This imbalance has developed over the last 3 years and may represent an issue to contend with during the next 4 years. The DWSRF loan fund in FY 2013 can fully fund the Priority List needs and have surplus funds, while the CWSRF loan fund in FY 2013 can only meet a small fraction of needs with its resources. DEQ will monitor this disparity and evaluate the impact of transferring money between the two loan funds.

In addition, the IUP listed six basic short-term goals:

1. Perform the tasks necessary to ensure that all appropriate loan assistance requested is provided in a timely manner.
2. Maintain the on-line DWSRF loan handbook.
3. Direct a minimum of approximately 10% of the capitalization grant to sustainability efforts (i.e., Green Project Reserve) and ensure that 20% of the capitalization grant award is provided as a loan subsidy (i.e., principal forgiveness).

4. Modify procedures related to implementing a Tier II environmental process, as experience dictates.
5. Make necessary changes to the FFY 2013 EPA capitalization grant application.
6. Improve reporting and monitoring of Single Audit Act compliance. Closely coordinate efforts with State Legislative Services Office to ensure appropriate compliance monitoring.

IDEQ accomplished these goals during SFY 2014.

Findings and Recommendations

1. **Loan Demand:** Over the last couple of years Idaho has had more money available for loans than loan demand. Please explain what measures are being taken to increase loan demand.
2. **Disadvantaged Assistance:** Idaho has been meeting the requirement to provide a certain amount of additional subsidy from each capitalization grant. However, additional projects that don't receive subsidy are still considered disadvantaged. Going forward, please provide additional information to indicate which systems fall into this category.
3. **Set-aside transaction testing:** Please answer the questions (pages 15-16) raised about several of the set-aside transactions. ****Completed****
4. **Loan transaction testing:** Please also answer the questions on pages 17-18 about some of the loan transactions. ****Completed****