



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 6
1201 ELM STREET, SUITE 500
DALLAS, TEXAS 75270

June 17, 2020

Shellie R. Chard
Director
Water Quality Division
Oklahoma Department of Environmental Quality
Post Office Box 1677
Oklahoma City, OK 73101-1677

Dear Ms. Chard:

Enclosed is the final State Fiscal Year (SFY) 2019 Drinking Water State Revolving Fund (DWSRF) annual Program Evaluation Report (PER). The report is based on the SFY2019 DWSRF Annual Report, on-site discussions, on-site file reviews, conducted December 16 – 19, 2019, and the completion of the Environmental Protection Agency's (EPA) standardized national checklists of program evaluation questions. We appreciate your assistance, as well as that of your staff, in this review process. The EPA's review finds that the Oklahoma Department of Environmental Quality (ODEQ) DWSRF Program was in compliance in SFY2019.

The EPA commends the ODEQ for targeting systems with health-based violations, primarily disinfection by-products (DBPs). The ODEQ focused use of subsidy to address health-based violations provides funding to communities otherwise unable to afford to address this non-compliance.

If you have any questions regarding the report, please feel free to contact me at (214) 665-7100, or have your staff contact Claudia Hosch, Branch Chief of the Assistance Programs Branch, at (214) 665-7110.

Sincerely,

Charles Maguire

Charles W. Maguire
Director
Water Division

Enclosure

ecc: Eddie Rhandour, ODEQ
Vicki Reed, ODEQ

U.S. Environmental Protection Agency
Region 6



Drinking Water
Revolving Loan Fund

Final Oklahoma
Program Evaluation Report

State Fiscal Year 2019 7/1/2018 - 6/30/2019

Prepared by EPA Region 6
Assistance Programs Branch
June 2020

Oklahoma DWSRF SFY19 Program Evaluation Report

I. Executive Summary

The Drinking Water State Revolving Fund (DWSRF) program onsite review covers the State Fiscal Year (SFY) 2019 (July 1, 2018 – June 30, 2019) and any significant programmatic information. The Oklahoma Program is administered cooperatively by the Oklahoma Department of Environmental Quality (ODEQ) and Oklahoma Water Resources Board (OWRB), as described by 82 OK Stat § 82-1085. 71 through 1085.84. Under their respective DWSRF roles, ODEQ performs the programmatic activities and Oklahoma Water Resources Board (OWRB) handles most accounting and financial processes.

The Environmental Protection Agency (EPA) Federal Fiscal Year (FFY) 2018 capitalization grant, awarded to ODEQ on 7/20/2018, provided Oklahoma \$15,747,000 in drinking water assistance. When added to the twenty percent state match (\$3,149,400), the DWSRF capitalization grant totaled \$18,896,400. Twenty percent (\$3,149,400) of the funds made available from the capitalization grant were used to provide additional subsidization to eligible recipients in the form of forgiveness of principal.

Key financial highlights of the program include the Program's 4% increase in net position, from \$267,295,996 in SFY 2018 to \$279,753,087, in SFY 2019. On June 30, 2018, the program had 129 outstanding loans with a principal balance of \$478,210,345. One year later, on June 30, 2019, there were 142 outstanding loans with a principal balance of \$551,361,538.

The program also made noteworthy strides during SFY 2019, in closing eleven (11) construction loans totaling \$85.5 million, that assisted Oklahoma public water systems with correcting deficiencies, achieving compliance with the national primary drinking water regulations, and furthering the public health protection objectives of the SDWA. During the SFY 2019, ODEQ made eleven (11) new binding commitments totaling \$94.7 million in drinking water construction. ODEQ also in SFY 2019 completed ten (10) construction projects totaling \$74.3 million.

In support of the EPA goal of twenty five percent (25%) reduction in health-based non-compliance by September 2022, OWRB and ODEQ are targeting systems with health-based violations, primarily Disinfection Byproducts (DBPs). ODEQ's staff met with approximately forty (40) public water systems that are out of compliance with the DPB rule. And out of those forty (40) systems, twenty-four (24) systems have decided to pursue funding through the DWSRF. EPA and Oklahoma continue efforts to ensure SDWA-compliant water systems have resources to maintain their compliance and to work with systems out of compliance to get back into compliance.

II. Purpose and Scope

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the SFY19 operation of the DWSRF Program, and document

whether the State has complied with the requirements of Section 1452 of the Safe Drinking Water Act (SDWA), and 40 CFR 35.3570 (c) Section 1452 of the SDWA and 40 CFR 35.3570(c) require the EPA to conduct an annual program review of each State's DWSRF program in terms of the Annual Report and other such materials considered necessary and appropriate in carrying out the purposes of the SDWA.

The purposes of the annual review are to:

- Evaluate the success of the State's performance in achieving goals and objectives identified in the Intended Use Plan (IUP), and the State's Annual Report;
- Evaluate the State's compliance with regulations, operating agreement, and grant agreements; to assess the financial status and performance of the fund;
- Review the program in accordance with EPA's SRF Annual Review Guidance;
- Review the status of resolution of prior year Program Evaluation Report (PER) findings; and
- Examine and follow up on any open audit findings and recommendations.

The Oklahoma Program is administered cooperatively as described by 82 OK Stat § 82-1085. 71 through 1085.84 between the ODEQ and OWRB. The Oklahoma DWSRF programmatic and financial review was conducted on-site December 16-20, 2019 in ODEQ's office in Oklahoma City, Oklahoma. The following ODEQ, OWRB, and EPA staff participated in the review:

ODEQ: Mark Hildebrand, Gregory Carr, Eddie Rhandour, Vicki Reed, Tiffany Schwimmer, Taylor Huizenga, Cody Cox, Terry Lyhane, Kristi Roy, Candy Thompson, Justin Hodge, Leslie Smith, Taima Rolle, Brandon Bowman, and Steven Hoffman; OWRB: Laura Oak.

EPA: Denise Hamilton, Ruben Camacho, and Adrian Chavarria.

During the on-site review, EPA Region 6 management (Denise Hamilton) and staff (Ruben Camacho & Adrian Chavarria) along with ODEQ's management (Mark Hildebrand, Gregory Carr, and Eddie Rhandour), and staff (Vicki Reed) addressed goals, priorities, concerns, and state challenges. Topics discussed at length included: program pace, full fund utilization, future EPA & State quarterly meetings, Water Infrastructure Improvements for the Nation Act (WIIN Act) grants; the use of subsidy; small system consolidation; and the EPA's national drinking water priority to reduce non-compliance by drinking water systems.

While meeting with ODEQ on-site, Region 6 shared EPA's "National Priority of the Drinking Water State Revolving Fund Program" memorandum from the Office of Ground Water and Drinking Water, dated June 5, 2019. The memo notes that collaboration between states and the EPA over the past few years has virtually eliminated federal unliquidated obligations (ULOs), increased the number of loans and fund outlays in many states, and significantly increased fund leveraging. Meanwhile, construction has accelerated, jobs have been created, and resources galvanized to protect public health. This memo asked the Regions to work with state partners (ODEQ and OWRB) to advance four specific national program priorities:

1. Achieve fullest utilization of funds through dynamic cash flow modeling.
2. Market DWSRF opportunities to water systems.
3. Employ both the DWSRF loan fund and set-asides as SDWA compliance tools.
4. Safeguard the program's public trust through fiscal controls and accountability.

III. Grant Compliance and Other Review Requirements

Upon review, it was determined that the State of Oklahoma met all compliance requirements as stated in regulations 40 CFR Part 35, the EPA/ODEQ operating agreement, and any open grant agreements (FS986817 & FS986818). Oklahoma has also satisfied all the required elements of the SFY19 Annual Review Guidance.

IV. Review Results

A. Programmatic/Technical Review

1. Project File Review

EPA reviewed ODEQ's files for the following projects:

Loan Reviewed	Date Loan Closed	Loan Amount
Cotton County RWD #2 (ORF-18-003-DW) FONSI	August 22, 2018	\$5,000,000 Loan \$ 0 Forgiveness \$5,000,000 Net
Tahlequah PWA (III) (ORF-18-0017-DW) CATEX	December 17, 2018	\$8,200,000 Loan \$ 0 Forgiveness \$8,200,000 Net

Cotton County RWD #2: This is a granular activated alumina water treatment plant, which includes two new wells, blending station, and water lines within the distribution system. This project reduces the amount of fluoride, arsenic, and nitrates in the drinking water in order to meet federal drinking water standards. This system has 1,270 connection and serves an estimated population of 2,000.

During the review and the discussion of the Cotton County RWD #2 project ODEQ's staff engineer Justin Hodge noted that he discovered that Cotton County RWD #2 project bid documents were missing the Cotton County "Heavy construction" wage rate therefore, did not contain the correct wage determination. The bulk of the construction was located at Comanche county where the Water Treatment Plant (WTP) is located. Justin Hodge discovered this issue prior to the start of construction and as such, the correct and the most recent wage rates were added by change order.

Tahlequah PWA (III): Rehabilitation of the Teehee and Tenkiller water treatment plants along with the addition of another 1.5 MGD membrane filtration unit to the Tenkiller water treatment plant. This project ensures Tahlequah PWA will be able to provide water to its customers and assists Tahlequah PWA with maintaining compliance with federal drinking water standards. This system has 3,000 connections and serves an estimated population of 18,431.

Both project files were well maintained and include the proper documents required for compliance with the DWSRF program.

2. Short and Long Term and Program Accomplishments

As documented in ODEQ's SFY19 Annual Report, the Oklahoma DWSRF program met most short-term and all long-term goals established by the SFY19 Intended Use Plan (IUP). Some of the programmatic and financial highlights for the SFY were:

- Used set-aside funds to:
 - provide assistance to systems which need to come back into compliance or remain in compliance;
 - implement Capacity Development Strategy;
 - update source water assessments
 - promote technical, managerial, and financial capability of all public water supply systems; and
 - provide technical assistance to systems to comply with the Long Term 2 (LT2), Stage 2 Disinfection Byproducts (DBP); Revised Total Coliform Rule (RTCR) Lead and Copper Rule (LCR), and Ground Water Rule.
- Encouraged the consolidation and/or regionalization of small public water systems that lack the capability to operate and maintain systems in a cost-effective manner. Offered subsidization in the form of principal forgiveness as encouragement to systems to consolidate or regionalize.
- Continued to refine the Capacity Development Program, including the Water Loss Audit Program.
- With OWRB, targeted systems with health-based violations, primarily DBPs. Met with approximately forty (40) public water systems, resulting in twenty-four (24) systems pursuing DWSRF funding. Continuing use of subsidy for health-based violations for the next 3-4 years.

3. Program Highlights and Initiatives

a. Binding Commitments:

ODEQ made eleven (11) new binding commitments totaling \$96.2 million, less de-obligations of \$1.51 million, totaling \$94.7 million in drinking water infrastructure construction. The water systems entering binding commitments in SFY19 include:

Six (6) long-term loans to small communities (serving 10,000 or under).

- Logan County (Co.) Rural Water District (RWD) #1 (V), \$1,000,000
- Cotton Co. RWD #2, \$5,000,000
- Eufaula Public Works Authority (PWA), \$1,000,000
- Eufaula Public Works Authority (PWA) (II), \$6,185,000
- Sayre PWA, \$823,180 and
- Nicoma Park Development Authority (DA). \$4,715,000

Five (5) long-term loans to large communities (serving greater than 10,000).

- Enid Municipal Authority (MA) (III) \$20,000,000
- Muskogee MA (II), \$17,640,000
- Tahlequah PWA (III), \$8,920,000

- Oklahoma City Water Utilities Trust (WUT) (VII), \$20,000,000, and
- Central Oklahoma Master Conservancy District (MCD) (II). \$11,000,000

While ODEQ and OWRB closed loans with ten (10) systems for eleven (11) projects by June 30, 2019, Pittsburg Co. Rural Water District #14, received a binding commitment during SFY 2018, but did not close until SFY 2019 for \$1,033,500. Additionally, Central Oklahoma MCD (II) received a binding commitment, but was unable to close the loan by June 30, 2019. In addition, ODEQ also completed ten (10) construction projects totaling \$74.3 million.

- b. Assistance Addressing Health-based Non-compliance** - In support of the EPA goal of twenty five percent (25%) reduction in health-based non-compliance by September 2022, OWRB and ODEQ are targeting systems with health-based violations, primarily DBPs. ODEQ's staff met with approximately forty (40) public water systems. And out of those forty (40) systems, twenty-four (24) systems have decided to pursue infrastructure funding through the DWSRF. EPA and Oklahoma continue efforts to ensure SDWA-compliant water systems have resources to maintain their compliance and to work with systems out of compliance to get back into compliance.
- c. Bridge Loan for the East Central Oklahoma Water Authority (ECOWA)** - The Oklahoma DWSRF assisted the community of Weber Falls (population: 616) by providing a bridge loan to the ECOWA to return its drinking water system to operations after major flooding of the Arkansas River during the Spring of 2019 broke the 6-inch water distribution line that was laid on the bottom of the river bed. The Oklahoma DWSRF program utilized the EPA-FEMA Memorandum of Understanding to have FEMA reimburse the program the temporary use of SRF funds after ECOWA was unable to secure all needed funding for repairs. An emergency connection to Porum Public Works Authority (PWA) provided water to the south side of Webbers Falls and another temporary 2-inch pipe from Gore PWA served the remainder of Webbers Falls; however, pressures were chronically low and a boil order was maintained. The project to install 2,500 feet of new 14-inch steel casing and 8-inch high density polyethylene pipe underneath the Arkansas River, with an estimated cost of \$750,000, began at the end of November 2019 and should be finished by February 2020. The expedited schedule prompted the PWS to acquire a DWSRF bridge loan of \$1M, anticipated to be repaid upon FEMA reimbursement for FEMA-eligible activities, because ECOWA was able to secure only partial funding through grants from the Oklahoma Water Resources Board (OWRB), Indian Health Services (IHS) through the Cherokee Nation, along with subsidy/Principal Forgiveness (PF) funds from DWSRF.
- d. Advanced Technical Assistance to Small Systems** - To further public health and improve compliance, ODEQ will fund two technical FTE's to provide advanced technical assistance through its State Environmental Laboratory Services (SELS) to the small public water supplies (<10,000) throughout the state. Initially, the focus will be in Oklahoma County and the surrounding area. Specifically, these individuals will perform the following tasks: schedule and provide one-on-one training on drinking water compliance samples as well as collect and transport samples back to ODEQ. Systems will pay for transportation and cost to analyze samples. The net result of these

positions will: improve the quality of samples collected and submitted for compliance testing, virtually eliminate the number of bad or cancelled samples, improve drinking water compliance rates and significantly reduce threats to public health.

- e. **Capacity Development Baseline** - ODEQ is establishing a statewide baseline after identifying the twenty top Capacity Development Program deficiencies, that include:
 - i. Absent mutual aid agreement
 - ii. No written plan to regularly test backflow preventers
 - iii. Failure to conduct energy audits on regular basis
 - iv. Having no written plan to eliminate dead ends in distribution system
 - v. No written plan to manage or obtain additional water rights
 - vi. No written plan to respond to and address deficiencies noted on sanitary surveys or inspections
 - vii. No emergency response plan
 - viii. Failure to track water loss via AWWA M36 Method
 - ix. Operation and Maintenance plan neither reviewed nor approved by board
 - x. No operation and maintenance plan detailing all aspects of the water system available and regularly updated

4. Program Management and Staffing

At the time of the on-site review, ODEQ was selecting a new Engineering Manager for the Water Quality Division and Travis Archer was subsequently hired as the Public Water Supply Group Manager.

During the SFY 2018 PER, EPA noted that ODEQ assists many small systems and could greatly increase program effectiveness by adding an FTE to assist with the Capacity Development (CD) duties. CD is a fundamental component of the 1996 Amendments to the Safe Drinking Water Act and creates a framework for states to support the technical, managerial, and financial capacity for water systems to provide safe drinking water to the public. Brandon Bowman, the ODEQ's CD Section Manager, has addressed these concerns by hiring one full-time staff and one part-time staff, with another full-time staff addition anticipated in late January 2020.

Additionally, ODEQ created and implemented "Operation Baseline," with three goals for assessment of all small municipal and rural water districts in the state within three years, to: 1) determine the overall CD trends and needs across all small system and measure them over time in relation to technical assistance efforts, new regulations, or other factors; 2) determine major CD needs and which systems need the most help so efforts can be targeted, and 3) evaluate technical assistance effectiveness to refine which practices do and don't work. ODEQ finds itself in year three and with 80% of the 705 small Oklahoma water systems assessed.

5. Administrative Fees and Interest Earnings

Oklahoma DWSRF borrowers were assessed a 0.5% administrative fee on the outstanding loan principal semi-annually, in addition to their principal and interest payments. As authorized by H.B. 1084 (May 1998), administrative fees collected by OWRB were held outside the DWSRF account in the Drinking Water Treatment Administrative Fund (DWTAF). During the SFY 2019 reporting period, \$2,563,124 were invoiced and collected

for administration fees. Additionally, the DWTAFF earned \$183,679 from investment interest. Staff training, Council of Infrastructure Financing Authorities (CIFA) workshop registration, publications, accounting software and annual maintenance fee, State match, and payroll accounted for \$1,284,872 of DWTAFF expenditures. OWRB certified that all expenditures made from the DWTAFF were for eligible DWSRF purposes. The balance of the DWTAFF at June 30, 2019, was \$8,864,721.

6. Set-asides

Section 1452 of the SDWA authorizes four set-asides to enable states to implement requirements of the SDWA. The ODEQ administers the set-aside funds for the DWSRF Program and reserved 31% of the FFY18 capitalization grant. Timely workplans and reports were submitted for each set-aside category. The Annual Report showed that ODEQ still had \$10,720 from the FFY17 and \$2,078,805 from the FFY 2018 grant for a total of \$2,089,525 remaining unexpended at the end of the reporting period. ODEQ did not transfer any unexpended set-aside funds from the capitalization grant to the project loan fund.

ODEQ provided detailed explanations and quantification of anticipated set-aside activities in the SFY 2019 set-aside workplans as well as the SFY 2019 Annual Report. We appreciate ODEQ's continued assistance to systems for improving drinking water and we recognize that ODEQ accomplishes this through their use of their set-aside funds.

Small Systems Technical Assistance (SSTA) (2%)- Two percent (2%) of the FFY18 DWSRF capitalization grant was set-aside to fund small system technical assistance provided by ODEQ personnel in SFY19. These funds were reserved to provide technical assistance to public water supply systems serving populations of 10,000 or fewer which accounts for 96% (1,332) of the water supply systems which served 1,212,902 Oklahomans.

The SSTA reserved \$314,940 from the FFY18 capitalization grant for use entirely for salaries and related expenses. The expenditures from the FFY17 and FFY18 grants were \$6,114 and \$195,551 for the SFY 2019 reporting period. During SFY19, ODEQ did not transfer any unexpended Small System Technical Assistance Set-aside funds from the capitalization grant to the project loan fund. The SSTA enabled ODEQ Public Water Supply District Engineers, and Representatives and DWSRF staff to assist:

- Small water supply systems in preparation and application for DWSRF loan projects.
- Systems deemed in need of improved operational controls.

State Program Management Set-aside (10%)- ODEQ reserved \$1,574,700 (10%) of the FFY18 federal capitalization grant to fund a portion of the Public Water Supply Supervision (PWSS) Program during SFY19. ODEQ did not transfer any State Program Management set-aside funds to the project loan fund. The State Program Management set-aside from the FFY18 capitalization grant was specified for staff salaries, including related expenses, and contracts during SFY19. During SFY19, the DWSRF Program expended \$488,341 from the FFY17 and \$990,323 from the FFY18 grant State Program Management set-asides.

The FFY18 funds were reserved to provide technical assistance and other enforcement activities of the PWSS Program, as well as conducting Sanitary Surveys. The PWSS program, as administered by the Water Quality Division (WQD) of ODEQ, regulated 1,392

water supply systems which served 3,776,835 Oklahomans in SFY19. The State Program Management set-aside provided federal funds to WQD staff for:

- Tracking and assisting systems with organic and inorganic chemicals related issues.
- Tracking and providing technical assistance for Stage 2 Disinfectant/Disinfection By-product Rule (DBP) - totaling 904 systems with current DBP schedules in SFY 2019.
- Updating PWS inventory information including administrative contact information, sources of raw water, and treatment processes - totaling 2,764 updates for systems in SFY 2019.
- Updating latitudes and longitudes for surface water intakes and public water supply wells -totaling 61 new or updated/corrected locations in SFY 2019.
- Reviewing and evaluating the eligibility of projects and compliance issues surrounding each system that requested placement on the DWSRF project priority list - totaling 21 for SFY 2019.
- Tracking and updating the database of systems affected by drought conditions totaling 30 systems for SFY 2019.
- Tracking and providing technical assistance associated with the Lead and Copper Rule - totaling 1,023 systems with current lead and copper schedules for SFY 2019.
- Performing comprehensive performance evaluations (CPEs) - totaling two CPEs for SFY 2019.
- Tracking and providing technical assistance with the Consumer Confidence Rule (CCR) - totaling 925 systems with CCR schedules for SFY 2019.
- Tracking and providing technical assistance with the Revised Total Coliform Rule (RTCR) - totaling 1,389 systems with current RTCR schedules for SFY 2019.
- Tracking and providing technical assistance with Ground Water Rule - totaling 100 systems with triggered ground water schedules for SFY 2019.
- Tracking and providing technical assistance with radionuclides – totaling 561 systems with radionuclide schedules for SFY 2019.
- Tracking and providing technical assistance associated with Surface Water Treatment Rules (SWTR) – totaling 174 systems with SWTR requirements for SFY 2019.
- Tracking the 3,670 public notices requested for SFY 2019.
- Daily importation of electronic sample data into SDWIS totaling 75,712 samples imported for SFY 2019.

Local Assistance Set-aside (15%)- The DWSRF Program reserved \$2,362,050 (15%) of the FFY18 grant for the Local Assistance Set-Aside for capacity development activities. During SFY19, ODEQ did not transfer any unexpended Local Assistance and Other State Programs Set-aside funds to the project loan fund. During SFY19, the Local Assistance and Other State Programs’ set-aside expended \$782,047 from the FFY17 capitalization grant, and \$1,198,028 from the FFY18 grant for a total of \$1,980,075. The FFY17 and 18 capitalization grant Local Assistance Set-Asides were used to fund:

• Local Assistance and other State Programs’ Activities:	\$ 1,130,655
• Water Loss Program Activities:	\$ 488,837
• Crypto Activities:	\$ 89,312
• Harmful Algal Blooms (HAB):	\$ 41,451
• RTCR Assessments:	\$ 46,192
• Capacity Development Assessments:	<u>\$ 183,628</u>
Total	\$ 1,980,075

7. Additional Subsidization/Green Project Reserve (GPR)

Grant Number	Capitalization Grant Amount	Additional Subsidization Committed	Additional Subsidization Assigned	Percentage of Grant additional Subsidization
FS-98681414	\$14,226,000	\$2,850,200	\$2,850,200	20.0%
FS-98681415	\$14,157,000	\$2,831,400	\$2,831,400	20.0%
FS-98681416	\$13,393,000	\$2,678,600	\$2,678,600	20.0%
FS-98681417	\$13,279,000	\$2,655,800	\$1,033,500	20.0%
FS-98681418	\$15,747,000	\$3,149,400	\$0	20.0%

Each project awarded receives principal forgiveness in the order in which they are ready to proceed to construction until the additional subsidy funds are depleted. The principal forgiveness is applied to each draw request. As projects are completed, the final amounts are adjusted to the actual amount drawn.

The FFY18 appropriation grant assistance agreement had a subsidy requirement of “at least” 20%. ODEQ and OWRB chose to provide a 20% subsidy limit (\$3,149,400). Oklahoma’s first priority for additional subsidies was for projects for disadvantaged communities, as defined through the 30-year financing negotiation under the DWSRF. The Oklahoma DWSRF defines “disadvantaged community” at Section VII.B in the SFY 2019 Intended Use Plan (IUP). ODEQ also targeted the additional subsidies to public water supplies who have health-based violations, primarily as Disinfection Byproduct (DBP) issues. DWSRF staff conducted several meetings with approximately 40 water systems (communities) with DBP violations during SFY 2019. Several small projects have been added to the PPL for DBP projects to use the subsidy funds. Communities were encouraged and advised to start the application process early as the funds would be obligated based on the readiness to proceed. Two (2) projects that closed loans during SFY 2019 were eligible to receive \$100,000 each during SFY 2020 for DBP issues. Those systems are Muskogee MA (II), and Eufaula PWA (II). All eleven (11) of the projects (10 systems) that closed loans were considered “disadvantaged”.

Although the appropriation also encouraged assistance for Green Project Reserve (GPR) projects, GPR was not mandatory for FFY18. The DWSRF Program did not provide assistance for GPR projects during SFY19.

8. Operating Agreement (OA)

ODEQ revised the operating agreement and submitted it to EPA Region 6. Region 6 is currently routing the OA for approval and signature. Once approved the Region will mail out an approval letter.

B. Financial Review

OWRB handles the majority of the accounting and financial process, including administration of assistance agreements and bond sales/purchases. ODEQ does the programmatic work and manages the set- asides for the DWSRF program.

1. Audit of the Fund

On September 24, 2019, the independent auditors, Arledge & Associates, P.C. Certified Public Accountants, audited the financial statements of the Oklahoma Department of Environmental Quality/Oklahoma Drinking Water State Revolving Fund Loan Program (the "Program") for the year ended June 30, 2019. The audits are performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The Single Audit for SFY 2019 was also dated September 24, 2019 and received an Unmodified opinion. There were no findings of material weaknesses or significant deficiencies identified.

2. State Match

The capitalization grant requires a state matching funds equivalent to 20%. The state match must be received before capitalization grant project fund payments can be accepted. The state matching funds for the FFY 2018 capitalization grant (\$15,747,000) in the amount of \$3,149,400 were provided through the DW 2018 bonds (\$2,655,800) and through transfer from the DWSRF Administrative Funds (\$493,600) held outside the DWSRF, with the option to refund the DWSRF Administration Fund with proceeds from an anticipated bond issue scheduled to close during SFY 2021. Since program inception, ODEQ/OWRB has expended available state matching funds prior to expending federal funds to ensure compliance with federal regulations prohibiting federal capitalization grant funds draw down prior to use of state funds.

3. Unliquidated Obligations (ULOs)

EPA's guidance encourages States to have no more than two open capitalization grants at any one time. The Oklahoma DWSRF continues to follow EPA's first-in-first-out (FIFO) policy of drawing grant funds such that older grant funds are drawn first. As of the date of the onsite review, the Oklahoma DWSRF had a balance amount of \$4,259,077 remaining in the FFY 2018 capitalization grant (FS98681418). The FFY 2019 capitalization grant (FS98681419) has a balance of \$9,908,985 out of a total of \$15,580,000 awarded. For SFY 2019, the Program meets EPA's goals with no issues with ULOs and no more than 2 open grants.

4. Financial Health of the Fund

The Program's net position increased by over 4% from \$267,295,996 in FY 2018 to \$279,753,087 in FY 2019. The increase in net position is primarily attributable to an increase in federal grant revenue retained to fund loans. The Program experienced an increase of \$73,151,193 in the amount of outstanding loans. At June 30, 2019, the Program had 142 outstanding loans with a principal balance of \$551,361,538. At June 30, 2018, the Program had 129 outstanding loans with a principal balance of \$478,210,345.

No defaults or deficiencies were reported or found during the on-site review. The ODEQ/OWRB and their financial advisors, Hilltop Securities have developed the Drinking Water SRF capacity model to gauge the long-term health of the SRF. Oklahoma uses the model for continuous monitoring throughout each fiscal year to assure that the perpetuity of the DWSRF is sustainable. Moreover, the model is used to aid in illustrating the overall impact to program capacity as a result of extended term financing, fluctuating federal funding levels, lending rate policies, market volatility, etc.

5. Financial Indicators

The State reported the following cumulative financial indicators:

OKLAHOMA DWSRF Financial Indicators (as of June 30, 2019)					
NIMS	Financial Indicators Based	2017	2018	2019	National Average*
418	Return on Federal Investment	372.0%	387.9%	409.7%	230.1%
419	Assistance Provided as a % of Funds Available	95.4%	93.8%	99.1%	96.3%
420	Disbursements as a % of Assistance Provided	81.7%	81.6%	83.8%	88.7%
424	Set-Aside Spending Rate	95.3%	96.5%	95.6%	92.2%
NEW	Ratio of Undisbursed Funds to Disbursements	4.5yrs	4.1yrs	2.4yrs	2.8yrs
NEW	Total Net		\$11,894,719	\$9,907,911	
NEW	Net Interest Margin		.20%	-.10%	1.1%

*2019 National Information Management System Report based on Leveraged States.

During the on-site review EPA discussed the financial indicators, along with the remainder of the analysis of indicators and trends. Below is a description of each of the indicators along with a summary of Oklahoma DWSRF results discussed:

- Return on Federal Investment** is described as “Cumulative Assistance Disbursed as a percentage of Cumulative Federal Outlays”. The program has disbursed 4.09 times more cumulative assistance in relation to federal outlays. This represents that the demand is high, and assistance is being provided in greater amounts than the federal funds received. Oklahoma closely monitors the demand for project funds and leverages the fund when needed. The program did not leverage bonds in SFY 2019. The program was last leveraged in SFY 2018. For SFY 2019 the program has achieved a federal return on investment well above the national average.
- Assistance Provided as Percentage of Funds Available** is known as the “pace” of the program and represents the percent of money available in the DWSRF program which has been committed in executed loans. At 99.1%, the Oklahoma DWSRF cumulative pace is above the national average of 96.3%. The annual pace of the program was 85%, 80%, and 367% in 2017, 2018, and 2019 respectively. The State provided annual DWSRF assistance of \$108.5 million, \$95.1 million and \$85.6 million in 2017, 2018, and 2019 respectively. The State awarded 9 assistance agreements in 2017; 8 in 2018; and 11 in

2019. The program is always marketing the program and reviewing ways to assist communities.

- **Disbursements as Percentage of Assistance Provided** has stayed approximately 82%-83% over the last few years. It is slightly below the national average of 88.7%. Disbursement requests from loan recipients are being received and disbursed in a timely manner. This indicator has improved in SFY 2019 and is expected to improve as loan recipients submit disbursement requests.
- **Ratio of Undisbursed Project Funds to Disbursements** evaluates how efficiently SRF funds are revolving (and thus, balancing inflows and outflows) by examining the program's disbursement rate over a set time-period and comparing it to the amount of cash on hand. The results of this measure reflect the number of years it would take to spend the cash on hand assuming future disbursements are consistent with average annual disbursements over the past 3 years. The Oklahoma DWSRF results for the last three year has continued to show improvement and decrease. In SFY 2019 number of years decreased to 2.4 years of undisbursed funds which is below the national average of 2.8 years. Overall the financial health of the program is strong and revolving well.

Oklahoma closely monitors the cash available versus the amount obligated to make sure they have the funds when the borrowers submit disbursement requests. The program is leveraged when needed and, at that time, the fund has large inflow of cash and that takes time to disburse. Once the bond funds are all dispersed, the OWRB then gets approval for a Reimbursement Resolution so that all the cash disbursed during a certain period to a bond issue will be used to reimburse themselves back approximately 30% to help them meet the 1st year spend down requirement of TIPRA (Tax Increase Prevention and Reconciliation Act of 2005). EPA confirmed that OWRB monitors funds throughout the year looking at expected monthly disbursements to borrowers, cash balances, bond proceeds, interest earnings, capitalization grant fund available, expected loan closings, and the project priority list.

- **Set-Aside Spending Rate** measure the rate the set-side funds are being spent. ODEQ is above the national average and does a great job getting funds spent in a timely matter.
- **Total Net** measures the extent by which internal growth is generating additional funding for new projects. It accomplishes this by taking the total cash inflows generated by ongoing loan and investment activity and subtracting out debt service payments from outstanding match and leveraged bonds. New federal capitalization grants and leveraged bond issues are also excluded from this calculation. This measure reflects the amount of new annual project funding that is generated solely from net repayments. For 2019, the Oklahoma DWSRF Total Net was \$9,907,911, indicating that internal growth of funds (through loan repayments and earnings) in the last year contributed to additional funding for projects.

- **Net Interest Margin** measures the percentage rate of return the SRF is generating from its Total Assets through loans and investment after accounting for the interest expenses associated with match and leveraged bonds. Oklahoma usually has a positive Net Interest Margin indicating that the fund generates positive earnings. This year's net interest margin is -.1%.

6. Transaction Testing

EPA's Annual Review guidance document and the Standard Operating Procedures for State Revolving Fund programs instruct the Region to review four cash draws that occurred in the State's fiscal year being reviewed. Region 6 reviewed four draws for SFY 2019 review, which are identified in the chart below. All invoices reviewed in the selection were found to be properly made for eligible DWSRF expenditures and were appropriately recorded in ODEQ/OWRB's accounting records. No improper payments were found.

Grant #	Date	Federal Draw	Type of Draw
FS98681417	08/24/2018	\$ 577,028.10	Set-aside
FS98681417	04/18/2019	\$ 950,000.00	Loan
FS98681418	10/16/2018	\$ 2,594,651.36	Loan
FS98681418	06/13/2019	\$ 349,190.41	Set-aside

EPA Headquarters provided a list of negative draws to the regions to review for SFY 2019 as to why monies were returned to the capitalization grants. There were no negative draws for the Oklahoma DWSRF grants listed for SFY 2019.

V. EPA SFY 2019 Recommendations Action Items

1. Project File Reviews

EPA Recommendation: Please provide documentation that the correct heavy wage rate was provided for the Cotton County location.

DEQ Response: During the review and the discussion of the Cotton County RWD #2 project ODEQ's staff engineer Justin Hodge noted that he discovered that Cotton County RWD #2 project bid documents were missing the Cotton County "Heavy construction" wage rate therefore, did not contain the correct wage determination. The bulk of the construction was located at Comanche county where the Water Treatment Plant (WTP) is located. Justin Hodge discovered this issue prior to the start of construction and as such, the correct and the most recent wage rates were added by change order.

EPA Response: Thank you for resolving this concern.

EPA Recommendation: As a best practice please add on bid approval checklist that the wage determination is confirmed for every location and that the 10/90-day rule is being met prior to the bid document approval. Consultation with the lead construction project engineer would be a best management practice.

2. Financial Indicators

EPA Recommendation: The Disbursement as a Percentage of Assistance Provided indicator is one of many financial indicators reviewed in examining a program’s financial success. The program financial indicators, along with other factors help determine the overall program success. We encourage ODEQ to continue to focus on improving “Disbursement as a Percentage of Assistance Provided.”

VI. Prior Year Action Items from SFY18 Review

1. Project File Reviews

The Oklahoma DWSRF Program includes the signage language as part of the contracts but does not include it in the loan agreements.

EPA Recommendation: The Oklahoma DWSRF Program agreed that the language would be included in future loan agreements with new borrowers. This should begin in the May-June 2019 timeframe. EPA thanks OWRB for implementing this change and will confirm the change during the SFY 2019 review.

EPA Status: Resolved

RECOMMENDATIONS	DUE DATE
1. Dedicate an additional FTE to Capacity Development	Completed
2. Submit the revised Operating Agreement	Completed
3. Language for the EPA signage requirement should be included in the loan documents.	Completed
4. Focus by the state on improving the following indicators; a) Disbursements as a % of Assistance Provided (NIMS42) and b.) Ratio of Undisbursed Funds to Disbursements.	a. Ongoing b. Goal Met

VII. Statement of Compliance with SRF Annual Review Guidance

We have conducted an annual review of Oklahoma’s Drinking Water State Revolving Fund Program for program year 2019 in accordance with EPA’s SRF Annual Review Guidance.