Final Oklahoma Program Evaluation Report

State Fiscal Year 2020 7/1/2019 - 6/30/2020
Prepared by EPA Region 6
Assistance Programs Branch
March 2021
March 15, 2021

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

Dear Ms. Chard:

Enclosed is the final State Fiscal Year (SFY) 2020 Drinking Water State Revolving Fund (DWSRF) annual Program Evaluation Report (PER). The report is based on the SFY 2020 DWSRF Annual Report, discussions with the Oklahoma Department of Environmental Quality (ODEQ) staff, a programmatic and financial review conducted remotely from November 4, 2020 through December 14, 2020, 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 ODEQ DWSRF Program was in compliance in SFY 2020.

The EPA commends the ODEQ for encouraging the consolidation/regionalization of small public water systems that lack the capability to operate and maintain systems in a cost-effective manner and for targeting systems with health-based violations, primarily Disinfection Byproducts (DBPs). ODEQ’s focused use of subsidy to address health-based violations and to encourage systems to consolidate or regionalize provides funding to communities otherwise unable to afford to address 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
Director
Water Division

Enclosure

ecc:  Eddie Rhandour, ODEQ
      Vicki Reed, ODEQ
The Oklahoma Drinking Water State Revolving Fund (DWSRF) program review covers the State Fiscal Year (SFY) 2020 (July 1, 2019 – June 30, 2020) and any significant programmatic information. The Oklahoma DWSRF 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. For their respective DWSRF roles, ODEQ performs the programmatic activities and OWRB handles the accounting and financial processes.

The Environmental Protection Agency (EPA) Federal Fiscal Year (FFY) 2019 capitalization grant, awarded to ODEQ on August 30, 2019, provided Oklahoma $15,580,000 ($15,600,000 minus $20,000 for Needs Survey Training) in drinking water assistance. This required a twenty percent state match ($3,120,000), when added to the DWSRF capitalization grant, totaled $18,700,000. ODEQ allowed for twenty percent ($3,120,000) of the federal funds to be made available from the capitalization grant for additional subsidization to eligible recipients in the form of principal forgiveness. ODEQ also included a minimum 6% subsidy requirement for Disadvantaged Systems in the amount of $936,000.

The DWSRF program’s key financial highlights include a 7.8% increase in net position, from $279,753,087 in SFY 2019 to $301,597,895 in SFY 2020. The increase in net position is primarily attributed to an increase in federal grant revenue retained to fund loans. The DWSRF program’s outstanding loans decreased by $41,748,085. On June 30, 2019, the program had 142 outstanding loans with a principal balance of $551,361,538. One year later, on June 30, 2020, there were 145 outstanding loans with a principal balance of $509,613,453.

Ten (10) projects totaling $31.9 million completed construction during the fiscal year and the ODEQ made binding commitments for seventeen (17) new loans, totaling approximately $167.4 million, in drinking water infrastructure for communities to correct problems and achieve compliance with the Safe Drinking Water Act (SDWA).

In support of the EPA goal of twenty-five percent (25%) reduction in health-based non-compliance by September 2022, ODEQ and OWRB are targeting systems with health-based violations, primarily Disinfection Byproducts (DBPs). ODEQ’s staff met with forty (40) Public Water Systems (PWS) that are out of compliance with the DPB rule. Out of those forty (40) systems, twenty-four (24) systems have decided to pursue funding through the DWSRF. During SFY 2020, ODEQ and OWRB closed loans with five (5) systems and made a binding commitment to one (1) system with health-based violations.
The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the SFY20 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).

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 IUP, and the State's Annual Report;
- Evaluate the State's compliance with regulations, operating agreement, and grant agreement FS-986814-19;
- 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 DWSRF programmatic and financial review was conducted remotely November 4, 2020 through December 14, 2020. The following ODEQ, OWRB, and EPA staff participated in the review:

ODEQ: Travis Archer, Gregory Carr, Eddie Rhandour, Vicki Reed, Tiffany Schwimmer, Cody Cox, Kristi Roy, Candy Thompson, Justin Hodge, Leslie Smith, Brandon Bowman, Cara Magott, and Steven Hoffman; OWRB: Laura Oak.

EPA: Adrian Chavarria, Ruben Camacho, Miranda Penn, Denise Hamilton, and Claudia Hosch.

Upon review, it was determined that the State of Oklahoma met all compliance requirements as stated in regulations 40 CFR Part 35, EPA/ODEQ operating agreement, and any open grant agreements (FS-986814-18). The FS-986814-18 had a balance of $2,137,897.50 and FS-986814-19 had a balance of $7,301,035.00 as of January 26, 2021. ODEQ has also satisfied all the required elements of the SFY 2020 annual review.
IV. Review Results

A. Programmatic/Technical Review

1. Project File Review

EPA reviewed ODEQ’s files for the following projects:

<table>
<thead>
<tr>
<th>Loan Reviewed</th>
<th>Date Loan Closed</th>
<th>Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atoka MA (II) (ORF-17-0002-DW) CATEX</td>
<td>March 26, 2020</td>
<td>$4,010,000 Loan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$100,000 Forgiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$3,910,000 Net</td>
</tr>
<tr>
<td>Collinsville MA (ORF-19-0003-DW) FONSI</td>
<td>February 7, 2020</td>
<td>$8,291,000 Loan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$0 Forgiveness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$8,291,000 Net</td>
</tr>
</tbody>
</table>

**Atoka MA (II):** Atoka is a city in Atoka County, Oklahoma with a population of 3,170 according to the 2010 census. The Atoka Municipal Authority (MA) serves approximately 3,600 customers with approximately 1,450 meters.

The project is intended to rehabilitate the water treatment plant, distribution system, chemical pretreatment, and appurtenances in order to comply with disinfection byproduct requirements. Construction of the proposed project includes one (1) 225,000-gallon clearwell with three (3) 700 gallon per minute (GPM) high service pumps to replace the existing clearwell, one (1) sodium permanganate feed system along with the installation of one (1) 360 kilowatt (KW) back-up power generator at the raw water intake, removal and replacement of chemical feed equipment, rehabilitation of a 300,000 gallon elevated storage tank located at the water treatment plant, rehabilitation of a 150 GPM Tushka pump station, laboratory improvements, installation of a new supervisory control and data acquisition (SCADA) and control system, and replace the water meters in the distribution system with Automatic Meter Readers (AMR).

At the time of the project file review, the proposed project was still under construction with only the replacement of the water meters with the AMRs having been completed.

**Collinsville MA:** Collinsville is a city in Rogers and Tulsa Counties, Oklahoma and has a population of 5,606 according to the 2010 census. Collinsville Municipal Authority owns and operates a water treatment plant (WTP) that was constructed in 1979 and serves approximately 5,600 customers with 2,030 service connections.

The proposed project is the expansion of the existing WTP. The WTP will be expanded from 1.3 million gallons per day (MGD) to 2 MGD to meet the needs of Collinsville MA through the year 2050. Construction will also consist of one (1) rapid mix basin, two (2) high rate clarifiers, four (4) multi-media filters, one (1) chemical building and feed system, one (1) powered activated carbon feed system, demolition of existing clarifiers and filters in process building, all necessary yard piping, rehabilitation of the Collinsville raw water pump station...
and all necessary appurtenances. Construction completion is estimated to occur in the summer of 2021.

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 SFY 2020 Annual Report, the Oklahoma DWSRF program met most short-term and all long-term goals established by the SFY 2020 Intended Use Plan (IUP). The following are some of the programmatic and financial highlights for SFY 2020.
   
   • Set-aside funds used:
     - To provide assistance to systems which need to come back into compliance or remain in compliance;
     - To implement Capacity Development Strategy;
     - To update source water assessments, along with DWSRF loans, to maximize compliance and public health protection;
     - To promote technical, managerial, and financial capability of all public water supply systems; and
     - To 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.
   
   • Revised the Capacity Development Strategy Document to include training and development/implementation assistance for system asset management plans. DEQ is currently in the review phase of its strategy document revisions and are on track to be the first in Region 6 to complete revisions in compliance with AWIA.
   
   • OWRB and ODEQ targeted systems with health-based violations, primarily DBPs.
   
   • ODEQ provided seventeen percent (17%) of assistance to small public drinking water systems and initiated construction on nine (9) projects that had a population of 10,000 or less.

3. Program Highlights and Initiatives
   a. Binding Commitments:
      ODEQ made seventeen (17) new binding commitments totaling $167.4 million in drinking water infrastructure construction for communities to correct problems and achieve compliance with the SDWA. The water systems entering binding commitments in SFY 2020 include:

      Twelve loans to small communities (serving 10,000 or under).
      - East Central Oklahoma WA: $1,000,000
      - Bryan County RWS &SWMD #2 (V): $100,000
      - Geary UA (II): $100,000
• Collinsville MA: $8,291,000
• Roland UA: $2,359,000
• Weleetka PWA: $95,330
• Atoka MA (II): $4,010,000
• Calera PWA: $1,555,000
• Locust Grove PWA: $9,875,000
• Cheyenne UA: $100,000
• Blackwell MA: $100,000
• McIntosh County RWS &SWMD #2: $590,000

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

• Oklahoma City WUT (VIII): $21,750,014
• Miami Special UA (II): $2,785,000
• Edmond PWA (VI): $40,000,000
• Okmulgee MA (IV): $700,000
• Oklahoma City WUT (IX): $74,000,000

Of the seventeen binding commitments during the FY, ODEQ and OWRB succeeded in closing fifteen loans for fourteen systems, since one system, Oklahoma City WUT had two (2) loans. The OK DWSRF also closed the loan for Central Oklahoma Master Conservancy District (II), who received a binding commitment during SFY 2019 but did not close until SFY 2020. Three systems, Geary UA (II), Calera PWA, and Blackwell MA each entered a binding commitment but didn’t close a loan by the end of SFY 2020. These three loans will close during early SFY 2021. In total, during SFY 2020 ODEQ and OWRB closed fifteen (15) loans with fourteen (14) systems for a total of approximately $171 million.

ODEQ completed construction on ten (10) projects totaling $31.9 million during SFY 2020. Those projects were:
• Goldsby WA
• Jay UA (II)
• Logan Co. RWS & SWMD #2 (IV)
• Oklahoma City WUT (VII) (3 projects)
• Pittsburg Co. RWD #14
• Roland UA
• East Central Oklahoma WA
• South Delaware Co. RWA

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 reports targeting assistance to systems with health-based violations, primarily DBPs. ODEQ’s staff met with forty (40) PWSs. And out of those forty (40) systems, twenty-four (24) systems have decided to pursue infrastructure funding through the DWSRF. During SFY 2020, ODEQ and OWRB closed loans with five (5) systems
that were eligible to receive $100,000 each for DBP issues and made a binding commitment to one (1) system with health-based violations. Those systems were:

- Bryan County RWS & SWMD #2 (V)
- Weleetka PWA
- Cheyenne UA
- Okmulgee MA (IV)
- McIntosh Co. RWS & SWMD #2
- Blackwell MA

c. **Pilot PWS Small System Technical Sampling Assistance** - In coordination with the ODEQ Water Quality Division (WQD), the State Environmental Lab Services (SELS) developed a pilot to target small systems to provide system personnel with advanced technical assistance in the form of site visits. The purpose of these visits was to explain and demonstrate proper sample collection techniques with an emphasis on the importance of sample integrity and traceability. Pilot activities included system specific targeted outreach and targeted small systems in the vicinity of Oklahoma City that were out of compliance. Significant effort was made to help the system staff better understand compliance sample rules, schedules, and test results. On-line training videos and other training tools were also created and deployed for use by these small public water supplies throughout the state with a focus on improved compliance rates and sustainability. ODEQ SELS also utilized DWSRF set-asides to hire one technical FTE.

d. **Capacity Development Baseline** - ODEQ completed implementation of the first phase of Project Baseline, a state-wide capacity development assessment of municipal water supplies and rural water districts serving 10,000 or fewer people.

592 water systems received a capacity development assessment focused on the system’s Technical, Managerial, and Financial (TMF) condition. The majority of assessed systems (79%) demonstrated borderline to adequate levels of TMF capacity, having successfully implemented between 50%-90% of capacity development factors. Sixteen percent (16%) of assessed systems demonstrated ideal levels of TMF capacity (possessing 90% or greater of capacity development factors), and 5% of assessed systems had a critical lack of capacity (possessing fewer than 50% of recommended capacity development factors).

The information gathered during the baseline assessment will be used to guide targeted TMF technical assistance to water systems in greatest need of help, to plan technical assistance outreach, and to focus areas for ODEQ and other technical assistance providers.

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.

5. **Administrative Fees and Interest Earnings**

Oklahoma DWSRF borrowers are 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 are held outside the DWSRF
account in the Drinking Water Treatment Administrative Fund (DWTAF). During SFY 2020, $2,772,521 of administrative fees were invoiced and collected. Additionally, the DWTAF earned $178,577 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 $3,766,333 of DWTAF expenditures. All expenditures made from the DWTAF were for eligible DWSRF purposes. The balance of the DWTAF at June 30, 2020, was $8,049,487.

6. Set-Aside Programs
Section 1452 of the SDWA authorizes four set-asides to enable states to implement the requirements of the SDWA. The ODEQ administers the set-aside funds for the DWSRF program and reserved 31% of the FFY 2019 capitalization grant. Timely workplans and reports were submitted for each set-aside category. The Annual Report showed that ODEQ still had $596,472 from the FFY 2018 grant in remaining unexpended set-aside funds 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 2020 set-aside workplans as well as the SFY 2020 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.

a. Administrative Set-Aside (4%) – The DWSRF Program reserved $624,000 from the FFY 2019 federal capitalization grant to cover administrative costs incurred by ODEQ and OWRB during SFY 2020. A total of $444,000 for SFY 2020 was budgeted for ODEQ expenses associated with administration of the DWSRF and $180,000 was budgeted for OWRB expenses associated with administration of the DWSRF. ODEQ and OWRB expended $238,566 from the FFY 2018 grant Administration Set-aside, and $324,781 from the FFY 2019 grant Administration Set-aside during SFY 2020. During SFY 2020, ODEQ did not transfer any unexpended Administration Set-aside funds from the capitalization grant to the project loan fund. Administrative expenses for the reporting period included:

- Staff salaries;
- Travel and training necessary for the adequate performance of staff;
- DWSRF audit costs;
- Provided equipment and supplies to meet the needs of the administration of the DWSRF;
- Loan portfolio management;
- Debt issuance;
- Financial, management, and legal consulting fees; and
- Technical tasks, including the review of planning and design documents, construction documents, and project inspection.

Two (2) contracts were implemented during the reporting period. The Annual Audit Contract was listed for $41,000 and was awarded for $35,875. The second contract was the Interagency Agreement (I/A) with OWRB for $180,000 which was fully expended during SFY 2020.
b. **Small Systems Technical Assistance (SSTA) (2%)** - Two percent (2%) of the FFY 2019 DWSRF capitalization grant was set-aside to fund small system technical assistance provided by ODEQ personnel in SFY 2020. These funds were reserved to provide technical assistance to public water supply systems serving populations of 10,000 or fewer which accounts for 96% (1,306) of the water supply systems which serves over 1.2 million Oklahomans.

The SSTA set-aside from the FFY 2019 capitalization grant was $312,000. This entire amount was specified for staff salaries and related expenses. The expenditures from the FFY18 grant were $129,911 and $108,110 from the FFY19 grant for the SFY 2020 reporting period. During SFY 2020, 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; and
- Small systems deemed in need of improved operational controls.

c. **State Program Management Set-aside (10%)** - ODEQ reserved $1,560,000 (10%) of the FFY 2019 federal capitalization grant to fund a portion of the Public Water Supply Supervision (PWSS) Program during SFY 2020. The State Program Management set-aside from the FFY 2018 capitalization grant was specified for staff salaries, including related expenses, and contracts during SFY 2019. During SFY 2019, the DWSRF Program expended $845,333 from the FFY 2018 capitalization grant including payroll funding corrections, and $1,027,159 from the FFY 2019 State Program Management set-aside. ODEQ did not transfer any State Program Management set-aside funds to the project loan fund.

The FFY 2018 funds were reserved to provide technical assistance and other enforcement activities of the PWSS Program, along with conducting Sanitary Surveys. The PWSS Program, as administered by the Water Quality Division (WQD) of ODEQ, regulated 1,357 water supply systems which served over 3.7 million Oklahomans in SFY 2020. In SFY 2020, the State Program Management set-aside provided federal funds for WQD staff to:

- Track and assist systems with organic and inorganic chemical;
- Track and provide technical assistance for Stage 2 Disinfectant/Disinfection By-product Rule (DBP);
- Update PWS inventory information including administrative contact information, sources of raw water, and treatment processes;
- Update latitudes and longitudes for surface water intakes and public water supply wells;
- Review and evaluate the eligibility of projects and compliance issues surrounding each system that requested placement on the DWSRF project priority list;
- Track and maintain a database for systems affected by drought conditions;
- Perform Comprehensive Performance Evaluations (CPEs) - totaling two CPEs for SFY 2020;
- Track and assist systems with the Lead Copper Rule, Consumer Confidence Rule, Revised Total Coliform Rule, Ground Water Rule, radionuclides, and Surface Water Treatment Rules; and
- Track public notices.

d. Local Assistance Set-aside (15%) - The DWSRF Program reserved $2,340,000 (15%) of the FFY 2019 grant for the Local Assistance Set-Aside for capacity development activities. During SFY 2020, ODEQ did not transfer any unexpended Local Assistance and Other State Programs Set-aside funds to the project loan fund. During SFY 2020, the Local Assistance and Other State Programs’ set-aside expended $585,841.68 from the FFY 2018 capitalization grant including payroll funding corrections, and $1,008,822.79 from the FFY 2019 grant for a total of $1,594,664.47. The FFY 2018 and FFY 2019 capitalization grant Local Assistance Set-Asides were used to fund:
  - Local Assistance and other State Programs’ Activities;
  - Water Loss Program Activities;
  - Crypto Activities;
  - Harmful Algal Blooms (HAB);
  - RTCR Assessments;
  - Capacity Development Assessments;
  - Pilot PWS Small System Technical Sampling Assistance; and
  - EPA DBP Pilot Project.

7. Marketing
ODEQ has conducted/participated in the following outreach and technical assistance activities in a continuing effort to market the DWSRF program:

- Small system technical assistance provided by ODEQ staff, such as the Public Water Supply Engineering & Enforcement Section and Environmental Complaints and Local Services Division;
- Active participation in quarterly meetings of the FACT – including the United States Department of Agriculture Rural Development (USDA-RD), OWRB, ORWA, Indian Health Services (IHS), Oklahoma Department of Commerce (ODOC), Communities Unlimited (CU), Oklahoma Development Finance Authority (ODFA), and Oklahoma Association of Regional Councils (OARC) – wherein invitations are extended to water systems with the most urgent technical and financial needs;
- Water Loss Program Activities are provided free of charge to small systems;
- Monthly meetings and/or consultations by DWSRF staff with small systems on the PPL that are not yet “ready to proceed” to assist them to become “shovel ready”;
- Coordination with OWRB and ORWA staff to provide financial and technical consultations;
- Presentations at conferences and workgroups to establish availability of small systems technical and financial assistance;
- OWRB sends funding resource letters to all drinking water Consent Order recipients;
• Continue to provide subsidy for public water systems with health-based violations, such as DBP issues; and
• ODEQ attended and presented at five (5) outreach meetings and marketed the DWSRF program in different regions of the State.

8. **Additional Subsidization/Green Project Reserve (GPR)**

<table>
<thead>
<tr>
<th>Grant Number</th>
<th>Capitalization Grant Amount</th>
<th>Additional Subsidization Committed</th>
<th>Additional Subsidization Assigned</th>
<th>Percentage of Grant additional Subsidization</th>
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<tbody>
<tr>
<td>FS-98681417</td>
<td>$13,279,000</td>
<td>$2,655,800</td>
<td>$1,033,500</td>
<td>20.0%</td>
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<tr>
<td>FS-98681418</td>
<td>$15,747,000</td>
<td>$3,149,400</td>
<td>$0</td>
<td>20.0%</td>
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<td>FS-98681419</td>
<td>$15,580,000*</td>
<td>$3,120,000</td>
<td>$0</td>
<td>20.0%</td>
</tr>
</tbody>
</table>

*$15,600,000 minus $20,000 for Needs Survey

The FFY 2019 appropriation grant assistance agreement had a subsidy requirement of “at least” 20%. ODEQ and OWRB chose to provide a 20% subsidy limit ($3,120,000) and also included a minimum 6% subsidy requirement for Disadvantaged Systems in the amount of $936,000.

9. **Green Project Reserve (GPR)**

Although the appropriation also encouraged assistance for Green Project Reserve (GPR) projects, GPR was not mandatory with the FFY 2019 allotment. The OK DWSRF Program did not provide assistance for GPR projects during SFY 2020.

10. **Operating Agreement (OA)**

ODEQ submitted a revised operating agreement to EPA Region 6 in SFY 2019. EPA Region 6 approved the revised operating agreement on March 3, 2020.

11. **The DWSRF AQUARIUS Recognition Program**

The South Delaware County Regional Water Authority (SDCRWA) was an “Exceptional Project” recipient in the EPA’s 2020 AQUARIUS Recognition Program. Twenty-five projects were recognized in the AQUARIUS program, and only five were deemed “exceptional.”

The SDCRWA received several million dollars from various sources, $3 million of which was provided through the DWSRF program, to construct a new water treatment plant and supply drinking water to nearby communities. Several communities in northeastern Oklahoma were struggling to address various drinking water challenges, such as excessive EPA maximum contaminant levels and sulfur-smelling water. The SDCRWA constructed a new treatment plant below Clear Lake Dam in Flint Ridge, to purify water drawn primarily from the Illinois River and secondarily from Clear Lake. The project also included expansion of the raw water intake capacity at the river, and construction of two new water towers in the Leach and Rose areas.
B. Financial Review

OWRB is responsible for 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-aside for the DWSRF program.

1. Audit of the Fund

On September 25, 2020, 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 ending on June 30, 2020. 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 2020 was also dated September 25, 2020 and received an Unmodified opinion. There were no findings of material weaknesses or significant deficiencies identified and ODEQ also qualified as low risk.

2. State Match

The DWSRF program capitalization grant requires the state to provide state matching funds equivalent to 20% of each capitalization grant. The state matching funds for the FFY 2019 capitalization grant ($15,600,000) in the amount of $3,120,000 were provided through transfer from the DWSRF Administrative Funds 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. It was documented and verified during the review that ODEQ/OWRB expended the FFY 2019 capitalization grant state matching funds prior to expending federal funds to ensure compliance with federal regulations.

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 program continues to follow EPA’s first-in-first-out (FIFO) policy of drawing the older grant funds first. As of the end of the SFY 2020 the Oklahoma DWSRF program had only two open capitalization grants, FFY 2018 and FFY 2019. The program had a remaining balance of $3,481,278 in the FFY 2018 capitalization grant (FS98681418) and the FFY 2019 capitalization grant (FS98681419) had a balance of $8,153,038 out of a total of $15,580,000 ($15,600,000 minus $20,000 for Needs Survey Training) awarded. The Program has met this goal in with no underlying issues in SFY 2020.

4. Financial Health of the Fund

According to the Oklahoma’s SFY 2020 audit report the Program’s net position increased by over 7.8% from $279,753,087 in FY 2019 to $301,597,895 in FY 2020. The increase in net position is primarily attributable to an increase in federal grant revenue retained to fund loans. During SFY 2020, the program made binding commitments for seventeen (17) new loans totaling approximately $167.4 million, closed fifteen (15) loans totaling approximately $171 million and also completed construction on ten (10) projects totaling $31.9 million.

The ODEQ/OWRB continues to use their financial advisors, Hilltop Securities to update 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 perpetuity of the DWSRF. Moreover, the model illustrates the overall impact to program capacity as a result of extended term financing, fluctuating federal funding levels, lending rate policies, market volatility, etc. No defaults or deficiencies were reported or found during the review. Overall, the program has demonstrated that it is financially well managed and continues to maintain its perpetuity.

5. Financial Indicators
The State reported the following cumulative financial indicators:

<table>
<thead>
<tr>
<th>NIMS Line #</th>
<th>Financial Indicators Based on Cumulative Earnings</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>National Average*</th>
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</thead>
<tbody>
<tr>
<td>418</td>
<td>Return on Federal Investment</td>
<td>387.9%</td>
<td>409.7%</td>
<td>416.1%</td>
<td>238.3%</td>
</tr>
<tr>
<td>419</td>
<td>Assistance Provided as a % of Funds Available</td>
<td>93.8%</td>
<td>99.1%</td>
<td>100.7%</td>
<td>96.9%</td>
</tr>
<tr>
<td>420</td>
<td>Disbursements as a % of Assistance Provided</td>
<td>81.6%</td>
<td>83.8%</td>
<td>79.6%</td>
<td>88.7%</td>
</tr>
<tr>
<td>421</td>
<td>Additional Assistance Provided Due to Leveraging</td>
<td>$546.4M</td>
<td>$609.2M</td>
<td>$633.3M</td>
<td>NA</td>
</tr>
<tr>
<td>424</td>
<td>Set-Aside Spending Rate</td>
<td>96.5%</td>
<td>95.6%</td>
<td>95.1%</td>
<td>91.3%</td>
</tr>
<tr>
<td>425</td>
<td>Net Return after Repaying Match Bonds Excluding Subsidy</td>
<td>$6.3M</td>
<td>$7.0M</td>
<td>$8.6M</td>
<td>NA</td>
</tr>
<tr>
<td>426</td>
<td>Net Return on Contributed Capital Excluding subsidy</td>
<td>2.7%</td>
<td>2.9%</td>
<td>3.3%</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>Ratio of Undisbursed Funds to Disbursements</td>
<td>4.1yrs</td>
<td>2.4yrs</td>
<td>3.1yrs</td>
<td>2.7yrs</td>
</tr>
<tr>
<td></td>
<td>Total Net</td>
<td>$11.8M</td>
<td>$9.9M</td>
<td>118.1M</td>
<td>NA</td>
</tr>
<tr>
<td></td>
<td>Net Interest Margin</td>
<td>.20%</td>
<td>-.10%</td>
<td>.3%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>


During the 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 4.16 times more cumulative assistance in relation to federal outlays. In SFY 2020 the program achieved a federal return on investment of 416% which is well above the national average 238.3%. This indicates 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 2020.

• **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 100.7%, the Oklahoma DWSRF cumulative pace is above the national average of 96.9%. The Oklahoma DWSRF program was ranked 12th out of 51 programs in the country, and 1st in the Region in SFY 2020. The State awarded 15 assistance agreements in SFY 2020 for approximately $170.9M which is the highest total amount the program has ever provided since the inception of the DWSRF program.

• **Disbursements as Percentage of Assistance Provided** is known as the disbursement pace and measures the speed at which projects are proceeding to completion based on the relationship between loan disbursements and the amount of funding provided. The indicator reflects a slight decrease from SFY 2019 to SFY 2020 and at 79.6% continues to be below the national average of 88.7%. The increase in pace the program has had in past several years can have a lag on the disbursements as a % of Assistance provided. A substantial difference between those numbers could indicate that loans closed are not ready to proceed to construction. When disbursement requests from loan recipients are received, they are being disbursed in a timely manner.

• **The Additional Assistance Provided Due to Leveraging** compares the cumulative amount of funds available after subtracting out the net funds provided by issuing bonds. Since inception of the program Oklahoma has funded an additional $633.3M in projects due to leveraging. Since this measure is dependent on the size of the program, comparisons to the national averages for this indicator are of limited value and not shown.

• **The Net Return after Repaying Match Bonds Excluding Subsidy** indicator is expressed as a dollar amount to show the net earnings of the DWSRF after any State Match Bonds are repaid and any Loan Principal is forgiven, thereby indicating how well the DWSRF is maintaining its invested and contributed capital.. A positive value indicates that the revenues of the fund are meeting expenses after any state match bonds are repaid and any loan principal is forgiven. Additionally, a positive value shows that the DWSRF is maintaining its contributed capital. Conversely, a negative value indicates that expenses are exceeding revenues after any state match bonds are repaid and any loan principal is forgiven. Oklahoma had a net return of $8.6M as of June 30, 2020.
• **The Net Return on Contributed Capital** indicator is expressed as a percentage and shows the Net Return on the invested/contributed capital after repaying any State Match Bonds and after forgiving any Loan Principal. This indicator estimates the growth of the DWSRF relative to the investment earnings and to the Federal and State contributed capital. A positive value indicates the Fund’s growth and a negative value indicates a net loss. As of June 30, 2020, Oklahoma has a net return of 3.3%.

• **Ratio of Undisbursed Project Funds to Disbursements** compares the program’s disbursement rate over a set time-period to the amount of cash on hand. The measure tracks how efficiently SRF funds are revolving (and thus, balancing inflows and outflows) and reflects 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 remained between 2.4 to 4.1 years, with a slight increase from 2.4 years in SYF 2019 to 3.1 years in SFY 2020.

• **Set-Aside Spending Rate** measures the rate the set-side funds are spent. The program is performing above the national average and is spending funds in a timely matter.

• **Total Net** - measures the extent by which internal growth is generating additional funding for new projects. and reflects the amount of new annual project funding that is generated solely from net repayments. For 2020, the Oklahoma DWSRF Total Net was $118.1M, indicating a substantial improvement of internal growth of funds (through loan repayments and earnings) contributing 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 investments after accounting for the interest expenses associated with match and leveraged bonds. Oklahoma shows a positive Net Interest Margin of 0.3% indicating that the fund generates positive earnings.

Overall, the financial health of the program remains strong and is trending in the right direction. Oklahoma reports that it closely monitors the cash available versus the amount obligated to ensure availability of funds when borrowers submit disbursement requests. The program is leveraged when needed, which results in a large inflow of cash to the fund that takes time to disburse. 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.

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 2020 review, which are identified in the chart on page 15. 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.
<table>
<thead>
<tr>
<th>Grant #</th>
<th>Date</th>
<th>Federal Draw</th>
<th>Type of Draw</th>
</tr>
</thead>
<tbody>
<tr>
<td>FS98681418</td>
<td>01/30/2020</td>
<td>$ 100,000.00</td>
<td>Loan</td>
</tr>
<tr>
<td>FS98681418</td>
<td>02/28/2020</td>
<td>$ 185,083.64</td>
<td>Set-asides</td>
</tr>
<tr>
<td>FS98681419</td>
<td>11/18/2019</td>
<td>$ 3,239,898.11</td>
<td>Loan</td>
</tr>
<tr>
<td>FS98681419</td>
<td>11/27/2019</td>
<td>$ 1,795,801.69</td>
<td>Loan</td>
</tr>
</tbody>
</table>

EPA Headquarters provided a list of negative draws to the regions to review for SFY 2020 as to why monies were returned to the capitalization grants. There were no negative draws for the Oklahoma DWSRF grants listed for SFY 2020.

V. EPA SFY 2020 Recommendations Action Items

1. Financial Indicators

**EPA Recommendation:** We encourage ODEQ to continue to focus on improving “Disbursement as a Percentage of Assistance Provided,” as the indicator continues to remain lower than the national average and slightly decreased in SFY 2020. While acknowledging that one financial indicator may not be indicative of program direction, EPA encourages measures that could improve this indicator. Activities that could improve performance include additional support or incentives to recipients to increase readiness to proceed to construction at the time of loan closing, and greater management of construction milestones. It is recognized that weather and other factors out of the state’s control can impact delays in construction and affect disbursement rate.”

VI. Prior Year Action Items from SFY 2019 Review

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.”

**EPA Update Status:** On-going

**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 2020 in accordance with EPA’s SRF Annual Review Guidance.