



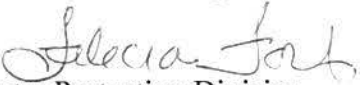
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF WATER

November 14, 2017

MEMORANDUM

SUBJECT: 2017 Review of the Drinking Water State Revolving Fund in Region 4

FROM: Felecia Fort, DWSRF Manager 
Infrastructure Branch, Drinking Water Protection Division
Office of Ground Water and Drinking Water

TO: Mary Walker, Director
Water Protection Division, Region 4

This memorandum summarizes EPA Headquarters' 2017 review of the Region 4 Drinking Water State Revolving Fund program. Our review, conducted by HQ DWSRF Team Lead Nick Chamberlain on August 15-16, 2017, discussed national DWSRF priorities and evaluated the Region's program oversight.

The DWSRF program is the federal government's largest financial investment in drinking water infrastructure and public water system capacity-building activities. In state fiscal year 2016 alone, the DWSRF infrastructure loan program impacted the lives of nearly 50 million Americans, returning systems to Safe Drinking Water Act compliance and renewing systems with aging infrastructure. And many more Americans benefited from the DWSRF's non-infrastructure capacity development, operator certification, and source water protection activities. The program is a critical priority and responsibility for the EPA.

In recent years, the DWSRF program accounted for more than ten percent of the EPA's budget. The President's proposed fiscal year 2018 budget increases the program's share, when paired with the Clean Water SRF, to over *forty* percent of the Agency's budget. This indicates the Administration's strong focus on federal infrastructure investment and underscores our incredibly large fiduciary responsibility as program managers.

Through our review this year, HQ observed that the Region generally oversees the eight state DWSRF programs in an adequate manner. To more effectively implement this critical public health program, please provide additional attention to DWSRF-PWSS coordination and program staffing. These topics are discussed in detail below.

Major Observations

1) *Full Fund Utilization*

- This is a national program priority. A revolving fund program is fundamentally different than a traditional grant program and must be managed and overseen, both at the state and federal levels, in a fundamentally different manner.
- Maximizing public health protection from the DWSRF requires the active balancing of fund inflows and outflows. States may use the federally-funded DWSRF set-asides to build cash flow models to determine the *supply* of funds available over time and to actively conduct outreach to borrowers to maximize *demand* for the funds.
- **HQ Observation:** The Region recognizes that nearly all of the eight state DWSRF programs should improve their cash flow modeling and borrower outreach. The Region’s average *assistance provided as percent of funds available* (often described as “pace”) is ten percent lower than the national average of 95 percent. This indicates that states in Region 4 have underutilized capacity to make drinking water infrastructure loans.
 - With the potential upcoming Congressional reauthorization of the DWSRF and sustained annual federal capitalization grants, state managers must be prepared to expeditiously move both federal and “revolving” funds into communities with the greatest need for drinking water infrastructure and related activities.
 - An investment in improved cash flow modeling and borrower outreach will result in additional (and/or higher-dollar) infrastructure projects constructed, and most importantly, greater public health protection.
 - HQ requests that the Region continue to provide active assistance to all states as they develop or improve their financial models and outreach plans. EPA offers in-kind assistance via a contractor to help states develop these tools.
- **HQ Observation:** HQ acknowledges and appreciates the Region’s ongoing work with Tennessee in unliquidated obligation (ULO) reduction and the state’s commencement of cash flow modeling. State managers recently informed the Region that the state will soon hire new SRF financial staff. HQ requests that the Region work with these new staff members as early as possible to provide program training, especially on the unique nature of SRF financial modeling. This is a rare opportunity to set a positive direction of the State’s program, giving potential for additional benefits to Tennesseans for decades to come.

2) *DWSRF-PWSS Coordination*

- This is a national program priority. The 1996 SDWA Amendments directed the DWSRF and PWSS programs to work hand-in-hand: the state PWSS program is, by statute, in charge of prioritizing the use of the DWSRF funds. Therefore, it is critical for both programs to work strategically together, both at the state and federal levels.
- Not every drinking water problem can be solved with new or improved infrastructure. For those water systems that already have adequate infrastructure, the DWSRF set-asides – whether for PWSS, Source Water Protection, Operator Certification – help our nation maintain infrastructure investments. For water systems that need an infrastructure investment, the PWSS program can help get projects ready to proceed and ready to succeed.
- **HQ Observation:** The Region is organizationally structured to include both the PWSS and DWSRF teams together in one branch. Most DWSRF-PWSS interaction is informal. HQ strongly recommends that the DWSRF and PWSS teams meet regularly to assess each state’s progress in meeting the objectives of SDWA. This involves an assessment of the PWSS and

DWSRF set-aside workplans to determine whether there is overlap and assess how the state is funding their programs, with particular focus on the coordination of funding of the same activity. There should be an assessment of progress throughout the year. Both teams should continue to assess whether states are adequately meeting the infrastructure and/or capacity needs of systems ranking high on the Enforcement Targeting Tool (ETT) list. During DWSRF annual state reviews, the Region must meet with state managers who oversee the DWSRF set-asides.

3) *Regional Staffing and Oversight*

- Many Region 4 state-level DWSRF managers have directed and overseen their SRF programs for multiple decades, some back to the Construction Grants Program. They will soon retire and greater burden will, at least in the short-term, be placed on the federal side of the federal-state partnership, as new personnel adjust to management roles.
- HQ acknowledges and appreciates the Region's past efforts to add Regional FTE to oversee the DWSRF.
- The Region's DWSRF program has approximately 1.9 FTE overseeing eight state DWSRF programs, or 0.24 FTE per state DWSRF program. *See Figure 1 below.* This is half the national average estimate of 0.5 FTE per state DWSRF program.
- The duties of Regional DWSRF project officers (POs) and financial analysts (FAs) are vast and go far beyond requisite actions of the annual federal capitalization grant award process and the on-site review. Every day, EPA SRF POs/FAs assist our state partners with the strategic management of their programs, answer legally complex eligibility questions (requiring knowledge of both the federal- and state-specific statutory, regulatory, and policy framework), provide hands-on training and guidance to various stakeholders, evaluate Congressional and financial market actions affecting the program, and provide national program managers at HQ with their invaluable expertise during both formal and informal policymaking process.
- **HQ Observation:** Given the DWSRF program's outsize stature at the Agency (11 percent of the budget in FY17, potentially doubling in FY18), HQ strongly encourages adding additional FTE at the Regional level.
 - The program's stature carries outsize fiduciary risk and responsibility. Furthermore, the program gets larger each year as it *revolves*. We have the responsibility to our fellow taxpayers to adequately oversee *all* funds, both federal and non-federal, in the program.
 - Recent high-profile events have focused the nation's attention on drinking water infrastructure. As the nation's largest public investment in such infrastructure, the DWSRF is experiencing heightened interest and scrutiny from stakeholders. We must be able to expeditiously assist these stakeholders.
 - The national program's focus on full fund utilization will require additional work on the federal level, both at HQ and the Region. It will necessitate the Region's involvement in significantly more hands-on training, modeling and outreach to local borrowers.

Figure 1: 2017 Region 4 DWSRF Staff

Staff Name	Job Function	State	Estimated % of Time on DWSRF	Total DWSRF FTE Estimation	# of State DWSRF Programs Overseen	DWSRF FTE per State
Stacey Bouma	Section Chief	n/a	15%	1.90	8	0.24 <i>Est. National Average = 0.51</i>
Sibyl Cole	Grants Management	n/a	25%			
Travis Creighton	Project Officer/ Financial Analyst	MS, NC, TN	50%			
Stephanie Hammett	Project Officer/ Financial Analyst	AL, GA, SC	50%			
Sheryl Parsons	Project Officer/ Financial Analyst	FL, KY	50%			

Thank you for providing information and staff time to assist in the review. You may contact me at (202) 564-4876 if you have any questions, suggestions or comments regarding the review.

- cc: Becky Allenbach, Region 4
 Stacey Bouma, Region 4
 Travis Creighton, Region 4
 Stephanie Hammett, Region 4
 Sheryl Parsons, Region 4
 Kirsten Anderer, HQ
 Nick Chamberlain, HQ
 Miriam Kochman, HQ
 Howard E. Rubin, HQ
 Peter Shanaghan, HQ