



Program Evaluation Report

Idaho Department of Environmental Quality
Drinking Water State Revolving Fund
State Fiscal Year 2016

December 2016

Final

Executive Summary

The Idaho Department of Environmental Quality (IDEQ) Water Quality Program Office manages the Clean Water State Revolving Fund (CWSRF), the Drinking Water State Revolving Fund (DWSRF) and a planning grant program, as well as other water quality programs. IDEQ has administered the Drinking Water State Revolving Fund since the program's inception in SFY 1998. In that year, the State received its first capitalization grant award of \$14,157,800 while the State deposited a matching contribution of \$2,831,560. Through the end of State Fiscal Year (SFY) 2016 Idaho has received \$187 million in capitalization grants and has provided \$38 million in state match.

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

- A group of experienced, qualified and highly capable DEQ professional staff. These people invest considerable time and effort in marketing the program to potential applicants, assisting loan applicants with project development, as well as oversight of the projects that are under construction with DWSRF financing.
- Success at providing and tracking additional grant subsidies through the Disadvantaged Assistance Loan program to help struggling water systems maintain or achieve compliance with drinking water regulations.
- Use of the DWSRF set-aside funds for a variety of innovative purposes. This includes using set-aside funds to provide matching grants so that water systems can hire professional engineers to prepare facility planning documents in preparation for an infrastructure project, or using set-aside funds to acquire technology like the auto-dialer system to remind system operators about missing water samples.
- A strong partnership with local Councils of Government (COGs) to help borrowers with project management and implementation of some of the Federal requirements such as Davis-Bacon that now apply to the DWSRF program. Idaho has also reached out to the engineering community to jointly develop useful implementation guidance for the American Iron and Steel (AIS) requirement.
- Successful voluntary Green Project Reserve (GPR) implementation. The GPR requirement ended for the DWSRF program after the FFY 2011 round of funding, but Idaho continues to encourage systems to incorporate GPR. During SFY 2016 the state had a goal of less than \$1 million for GPR. However, at the end of the year, they reported more than \$5 million in GPR related activities from the projects recently financed by the DWSRF program. This is an important step toward helping water systems become more sustainable.

In the Program Evaluation Report (PER) for the last couple of annual reviews EPA has raised the issue of loan program pace. During the SFY 2016 annual review that occurred in November 2016, we again discussed the continued low loan demand, and ways to make the

DWSRF program more marketable. However, on a positive note, Idaho's loan pace **has** improved, due to the transfers, but also due to a year-to-year increase in the amount of loans signed. This is a very positive sign. Another discussion topic was Idaho's success at tracking and meeting each capitalization grant's requirement to provide a specific amount of additional subsidy. Finally, we acknowledged Idaho's success at successfully expending all legacy ULO funds well before the 9/30/16 deadline; the first Region 10 state to do so.

Loan Demand: For the last few years, the demand for DWSRF funding has been low, evidenced by the need to transfer \$10 million in SFY 2014, SFY 2016, and SFY 2017 from the DWSRF to the CWSRF. While transfers are clearly an eligible activity, and do address two short term needs – meeting higher loan demand in the CWSRF, and removing unneeded funds from the DWSRF – transfers fail to address the longer term issue of loan demand. However, over the last four years, Idaho has seen an upward trend in the pace rate. In particular the nearly \$14 million in loans signed during SFY 2016 brought Idaho's pace rate up to 94%, which is on par with the national average. In addition, program staff have continued to work to streamline the program as much as possible in an effort to reduce the compliance burden for borrowers. As a result we view the results through SFY 2016 as being very positive.

DWSRF ULOs: For the last several years, EPA has pushed states to expend awarded DWSRF capitalization grants in an expeditious manner. Awarded grant funds that have not been expended are called Unliquidated Obligations (ULOs). Idaho was the first Region 10 state to fully meet, 8 months in advance, the requirement to expend all legacy (FFY 2013 and prior) grant funds by the deadline of 9/30/16. We recognize that this took a significant amount of effort and coordination and applaud Idaho's accomplishments in this area.

Additional Subsidy: Since the American Recovery and Reinvestment Act (ARRA), Congress has required each state to provide varying amounts of capitalization grants as additional subsidy. For DWSRF borrowers in Idaho that qualify for additional subsidy, this subsidy comes in the form of principal forgiveness, i.e., the portion of a loan that does not have to be repaid. The tracking of this requirement, however, has proven to be daunting. To meet this challenge, Idaho independently and proactively developed a very useful MS Access-based tool to show the amount of subsidy committed, and ultimately expended, for each loan recipient. We applaud Idaho for being forward thinking and also for being willing to share this tool with other Region 10 states.

Introduction

This Program Evaluation Report (PER) summarizes the results of an annual review of the Idaho Drinking Water State Revolving Fund (DWSRF) conducted by the Environmental Protection Agency (EPA) for State Fiscal Year (SFY) 2016. The review is based on several critical elements:

1. The Intended Use Plan (IUP) for the SFY 2016 Idaho DWSRF program.
2. The SFY 2016 Annual Report for the Idaho DWSRF, covering the period from July 1, 2015 to June 30, 2016 (SFY 2016).

3. An analysis of data for State Fiscal Year 2016 submitted by Idaho DWSRF staff and maintained in EPA's Drinking Water National Information Management System (DWNIMS).
4. An analysis of project data for State Fiscal Year 2016 submitted by Idaho DWSRF staff and maintained in EPA's Drinking Water Project and Benefits Reporting (PBR) system.
5. An on-site discussion of the DWSRF program with IDEQ staff, and a review of project files on November 14-16, 2016.
6. The SFY 2015 Individual Entity Audit Report, completed by the Idaho State Legislative Services Office.

IDEQ Program Summary

The Idaho Department of Environmental Quality has administered the Drinking Water State Revolving Fund since the program's inception in SFY 1998. In that year, the State received its first capitalization grant award of \$14,157,800 while the State deposited a matching contribution of \$2,831,560. Through the end of SFY 2016, the EPA has awarded \$187,309,324 in capitalization grants and the state has deposited \$38,561,865 in matching contributions, for a total capitalization amount of \$225,871,189. The total value of the capitalization for the DWSRF will increase every year due to the interest that the DWSRF earns on its loan portfolio as well as on its invested cash balance. Table 1 below shows a history of Federal capitalization and grant-by-grant expenditure information for the Idaho DWSRF.

Table 1: Idaho DWSRF Federal Capitalization Summary

| Grant # | Grant Amount | Total Draws thru June 30, 2015 | Draws during SFY 2016 | Total Draws thru June 30, 2016 | Undrawn Funds at June 30, 2016 |
|--------------|-----------------------|-----------------------------------|--------------------------|-----------------------------------|-----------------------------------|
| FS-980030-97 | \$ 14,157,800 | \$ 14,157,800 | \$ - | \$ 14,157,800 | \$ - |
| FS-980030-98 | \$ 7,121,300 | \$ 7,121,300 | \$ - | \$ 7,121,300 | \$ - |
| FS-980030-99 | \$ 7,463,800 | \$ 7,463,800 | \$ - | \$ 7,463,800 | \$ - |
| FS-980030-00 | \$ 7,757,000 | \$ 7,757,000 | \$ - | \$ 7,757,000 | \$ - |
| FS-980030-01 | \$ 7,789,100 | \$ 7,789,100 | \$ - | \$ 7,789,100 | \$ - |
| FS-980030-02 | \$ 8,052,500 | \$ 8,052,500 | \$ - | \$ 8,052,500 | \$ - |
| FS-980030-03 | \$ 8,004,100 | \$ 8,004,100 | \$ - | \$ 8,004,100 | \$ - |
| FS-980030-04 | \$ 8,303,100 | \$ 8,303,100 | \$ - | \$ 8,303,100 | \$ - |
| FS-980030-05 | \$ 8,285,500 | \$ 8,285,500 | \$ - | \$ 8,285,500 | \$ - |
| FS-980030-06 | \$ 8,229,300 | \$ 8,229,300 | \$ - | \$ 8,229,300 | \$ - |
| FS-980030-07 | \$ 8,229,000 | \$ 8,229,000 | \$ - | \$ 8,229,000 | \$ - |
| FS-980030-08 | \$ 8,146,000 | \$ 8,146,000 | \$ - | \$ 8,146,000 | \$ - |
| 2F-960884-01 | \$ 19,500,000 | \$ 19,500,000 | \$ - | \$ 19,500,000 | \$ - |
| FS-980030-09 | \$ 8,146,000 | \$ 8,146,000 | \$ - | \$ 8,146,000 | \$ - |
| FS-980030-10 | \$ 13,573,000 | \$ 13,573,000 | \$ - | \$ 13,573,000 | \$ - |
| FS-980030-11 | \$ 9,418,000 | \$ 9,418,000 | \$ - | \$ 9,418,000 | \$ - |
| FS-980030-12 | \$ 9,080,824 | \$ 9,080,824 | \$ - | \$ 9,080,824 | \$ - |
| FS-980030-13 | \$ 8,421,000 | \$ 7,237,173 | \$ 1,183,827 | \$ 8,421,000 | \$ - |
| FS-980030-14 | \$ 8,845,000 | \$ 3,789,078 | \$ 4,347,349 | \$ 8,136,427 | \$ 708,573 |
| FS-980030-15 | \$ 8,845,000 | \$ - | \$ 3,125,459 | \$ 3,125,459 | \$ 5,719,541 |
| Total | \$ 187,367,324 | \$ 172,282,575 | \$ 8,656,635 | \$ 180,939,210 | \$ 6,428,114 |

Source: (EPA's Compass Data Warehouse)

DWSRF Public Health Benefits

The DWSRF program is a government funded infrastructure financing program designed to provide significant public health benefits by ensuring delivery of clean and safe drinking water. The majority of each year’s capitalization grant is used to provide low interest loans to help public water systems to maintain, or return to, compliance with drinking water regulations. The table

below illustrates Idaho’s success in delivering these benefits since program inception in 1998.

Table 2: Idaho DWSRF Public Health Benefit Summary (1998-2016)

| Categories of Assistance | # Loans | \$ Loans | Population |
|---|-----------|-----------------------|----------------|
| Assisting Non-Compliant Systems Achieve Compliance | 45 | \$ 125,857,932 | 114,955 |
| Assisting Compliant Systems Maintain Compliance | 40 | \$ 88,897,016 | 182,598 |
| Assisting Compliant Systems to Meet Future Requirements | 2 | \$ 600,922 | 480 |
| Total: | 87 | \$ 215,355,870 | 298,033 |

Source: (DW NIMS)

The DWSRF program provides a very significant piece of the puzzle to help public water systems deliver clean and safe drinking water via the DWSRF

set-asides. Up to 31% of each DWSRF capitalization grant can be reserved for direct grant funding by the state for such purposes as DWSRF administration and technical assistance (4%), small systems technical assistance (2%), state program management, including PWSS program supplemental funding (10%), and state and local assistance (15%).

Idaho experienced less turnover in drinking water staffing during 2016 and actually increased staffing to include a full-time capacity development and operator certification lead. The separate position of the field services coordinator will now be primarily focused on development of the sanitary survey program. Consequently, in the coming year, DEQ anticipates implementing some of its previously delayed capacity development and small system technical assistance initiatives funded by the DWSRF set-asides, such as updates to Idaho’s technical, financial, and managerial (TFM) guidance document and sanitary survey modules. Further, DEQ plans to improve rule implementation among its 13 jurisdictions through a statewide audit. Lastly, now that staffing resources are available, the EPA and DEQ will collaborate on developing a capacity development work plan that results in an annual report that describes measurable outcomes from the program.

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

Set-Aside Activity Highlights

- Completed 102 source water assessment reports, of which 87 were new assessments with delineations and 15 were updated assessments. Assisted with 2 voluntary regional source water planning efforts for Caldwell and Mid-Snake planning groups.

- Helped 15 communities certify or recertify source water protection plans increasing the total population of Idaho residents with source water protection to 689,370. Through a DEQ contract, the Idaho Rural Water Association (IRWA) completed 10 of these source water protection plans.
- Provided 4 full day source water training workshops in Boise, Twin Falls, Pocatello and Lewiston for 180 attendees and 52 different outreach events.
- Completed 730 engineering projects of which 315 were plan and spec reviews. Also, completed 397 enhanced sanitary surveys. The majority of technical assistance provided to public water systems occurs during these activities.
- Using the capacity development set asides, DEQ provided \$287,908 in planning grants for communities to prepare facility plans for drinking water improvements. Also this year, DWSRF provided over \$1.5 million with \$946,900 in principal forgiveness, to assist 4 very small systems under enforcement consent orders.
- DEQ continued collaboration with IRWA, a third-party provider, to target their technical assistance to systems using the sanitary survey Preliminary Inspection Findings Form (PIFF). IRWA reached out to 12 systems using this method.
- DEQ continued its Sanitary Survey Continuing Education Units (CEUs) program in 2016, issuing 36 CEU certificates to operators of very small systems. This program has been successful in increasing the operator's knowledge of not only drinking water system requirements, but also in how to effectively operate their system.
- DEQ also produced 43 outreach products comprising 11 PWS Switchboard related postings and 32 auto-dialer calling events. The auto-dialer events continue to successfully increase compliance, particularly related to monitoring requirements. DEQ has observed a 57% reduction in failure-to-monitor violations (comparing 2008 to 2013).
- DEQ provided technical and capacity development assistance to 16 new water systems in SFY 2016. Of those 16 systems, 9 were classified as transient water systems and 7 were non-community non-transient public water systems.

DEQ addressed 107 systems on the enforcement targeted tracking (ETT) list through technical assistance, capacity development, infrastructure loans, and compliance activities. In May 2016, the ETT list comprised 101 existing systems.

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

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

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

For a couple of years after ARRA, the DWSRF program was required to provide a prescribed amount of funding for GPR activities. However, even though this requirement ended in 2011, the Idaho DWSRF has continued to encourage GPR funding. As noted in the Executive Summary, during the most recent period, more than \$5 million in GPR funding was recorded. More information about the sustainability elements of these projects can be found in the SFY 2016 DWSRF Annual Report (page 10), at this link:

<http://www.deq.idaho.gov/media/60177626/dw-srf-annual-report-fy16.pdf>

The Project Fund

The Idaho DWSRF is operated as a direct loan program. Through the end of SFY 2016 it had \$237,204,533 (Federal Grant Funds + State Match + Loan Repayments and Interest Earnings – Set-Asides) available for providing loan assistance to public water systems. Through the end of the same time period it had executed binding commitments for a total of 93 projects with a cumulative assistance amount of \$224,008,087. It thus had committed 94% of the available funds, which is on par with the national average of 95%. The improvement in loan pace this year and last year helped the Region 10 DWSRF program continue to maintain the highest fund utilization rate in the country.

Newer Programmatic Requirements

Additional Subsidy Reserve: Beginning with ARRA in 2009, each state is required to provide at least a minimum amount of additional subsidy (grant) funding to borrowers. The table below shows Idaho’s performance to date at meeting this requirement.

| Table 3: Idaho DWSRF Additional Subsidy Reserve Performance (2009 - 2016) | | | | | | |
|---|----------------------|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| Grant # | Grant Amt | ASR % (req) | ASR \$ (req) | | ASR \$ committed | ASR \$ expended |
| FS98003010 | \$ 13,573,000 | at least 30% | \$ 4,071,900 | | \$ 4,069,261 | \$ 3,998,543 |
| FS98003011 | \$ 9,418,000 | at least 30% | \$ 2,825,400 | | \$ 3,491,193 | \$ 2,601,486 |
| FS98003012 | \$ 8,975,000 | at least 20%, no more than 30% | \$ 1,795,000 | \$ 2,692,500 | \$ 2,692,800 | \$ 2,166,205 |
| FS98003013 | \$ 8,421,000 | at least 20%, no more than 30% | \$ 1,684,200 | \$ 2,526,300 | \$ 1,795,000 | \$ 1,743,585 |
| FS98003014 | \$ 8,845,000 | at least 20%, no more than 30% | \$ 1,769,000 | \$ 2,653,500 | \$ 2,211,250 | \$ 349,052 |
| FS98003015 | \$ 8,787,000 | at least 20%, no more than 30% | \$ 1,757,400 | \$ 2,636,100 | \$ 2,211,250 | \$ 33,877 |
| Totals: | \$ 58,019,000 | | \$13,902,900 | \$14,580,300 | \$16,470,754 | \$10,892,748 |

Source: (PBR, state reported data)

Davis-Bacon Wage Rates: Also starting with ARRA in 2009 and continuing to apply to the DWSRF program, each state is required to ensure that all loan contracts with borrowers, and the subsequent construction contracts between borrowers and contractors contain the correct language about Davis-Bacon wage rates. This language is intended to ensure that all construction workers are being paid the appropriate wages for the type of work they are doing. To help many of the smaller DWSRF borrowers comply with this requirement, Idaho has encouraged them to coordinate with Councils of Government. This arrangement seems to be paying dividends in terms of oversight and compliance, and other states in Region 10 have considered using the same approach. However, despite this coordination opportunity, over the last few years, a large number of borrowers have opted to get financing elsewhere. Idaho requested a deviation from this requirement for small water systems (serving a population of less than 10,000); however, EPA HQ denied the deviation request.

| Table 4: Idaho DWSRF ULO Status | |
|--|------------|
| Legacy Funds Remaining | \$ - |
| 2014 Funds Remaining at 6/30/16 | \$ 708,573 |
| 2014 Funds Remaining at 9/30/16 deadline | \$ - |

Source: (EPA HQ ad hoc reporting on ULOs)

Unliquidated Obligations (ULOs):

Under the DWSRF ULO reduction strategy, starting with the FFY 2014 capitalization grant, states are expected to fully expend new capitalization grants within 24 months of award. In addition, all remaining grant funds awarded prior

to FFY 2014 (defined as “legacy” funds) were required to be expended by September 30, 2016. The table shows Idaho’s status with regard to meeting this requirement. Idaho was the first state in Region 10 to fully expend all DWSRF legacy funds, and also expended all of the 2014 grant funds before the 9/30/16 deadline.

American Iron and Steel: A Buy American requirement applied to all projects using DWSRF ARRA funds. After ARRA, successive grants contained no similar language until the FFY 2014 appropriation bill imposed a new requirement, called American Iron and Steel (AIS). This requires all DWSRF borrowers to use iron and steel products that are produced in the U.S. for their water system projects. This requirement was initially effective January 17, 2014 through September 30, 2014, and was reapplied to the DWSRF program for FFY 2015 and again for FFY 2016. Idaho has made sure that the correct AIS language is being incorporated into loan contracts and construction contracts. To date, no project specific issues with AIS implementation have been reported. However, like Davis-Bacon, AIS has proven to be a significant deterrent to small water system participation in the DWSRF program. In fact, the Idaho DWSRF has lost numerous projects, in the amount of several millions of dollars, to other funding programs because of this requirement. The waiver request that Idaho sent to EPA HQ also sought relief from this requirement as well, for small water systems in the state of Idaho. That waiver request was denied.

| Table 5: Region 10 DWSRF Comparative Weighted Averaged Loan Rates | | | |
|--|--------------------------|-------------|-------------|
| | State Fiscal Year | | |
| State | 2014 | 2015 | 2016 |
| Alaska | 1.5% | 1.5% | 1.5% |
| Idaho | 1.5% | 1.7% | 2.2% |
| Oregon | 1.5% | 2.4% | 1.3% |
| Washington | 1.4% | 1.4% | 1.3% |
| U.S. | 1.8% | 1.6% | 1.7% |

Source: (DW NIMS)

Interest Rates

The Idaho DWSRF currently sets loan rates once a year. The basic interest rate for SFY 2016 was 3%. As shown in Table 5, the average loan rate was higher than other Region 10 states as well as the national average. The term for DWSRF loans is capped at 20 years, with the exception of disadvantaged loans, which may have up to a 30-year term, and an interest rate as low as 0%. Idaho made two disadvantaged loans during this period.

State Match [40 CFR §35.3550(g)]

The State of Idaho contributes match from appropriations approved by the state legislature and DEQ has started to use fee income to meet part of the match requirement. The table below shows the match contributions that Idaho has made to its DWSRF, including the contributions made during SFY 2016. Idaho continues to meet the matching requirement.

| Table 6: State Match Compliance | | | | | | |
|--|---|-------------------------------------|----------------------|---|-------------------------------------|----------------------|
| | Total Capitalization Grants at 6/30/15 | Total State Match at 6/30/15 | State Match % | Total Capitalization Grants at 6/30/16 | Total State Match at 6/30/16 | State Match % |
| Period | | | | | | |
| Totals | 178,522,324 | 36,804,465 | 21% | 187,309,324 | 38,561,865 | 21% |

Source: (DW NIMS)

Program Pace and Perpetuity

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

The trend over this three-year period shows a steady increase in the percentage of

| Table 7: Loans as a Percentage of Funds Available (Fund Utilization Rate) | | | | | |
|---|--------------------------------|---------------|-------|-----------|------|
| SFY | Total Project Funds Available* | Total Loans | Idaho | Region 10 | U.S. |
| 2014 | \$227,582,623 | \$198,490,335 | 87% | 110% | 93% |
| 2015 | \$232,585,126 | \$210,208,717 | 90% | 113% | 93% |
| 2016 | \$237,204,533 | \$224,008,087 | 94% | 112% | 95% |

Source: (DW NIMS)

available funds being used to provide loans. For the two previous years, Idaho had trailed the national average of 93% for this measure, but continued to show improvement for SFY 2015 and 2016. While

the \$10 million transfers from the DWSRF to the CWSRF were a primary driver for the improvement, Idaho has also been able to sign nearly \$40 million in DWSRF loans during the last three years. This effort has also contributed to improved performance in this important pace measure.

Another pace measure looks at how quickly states are spending the grants awarded to them. As shown in the table, Idaho's cumulative outlays from the Federal Treasury (cash draws for DWSRF loans and set-aside funds), increased

| Table 8: Outlays as a Percent of Grants | | | | |
|---|-------------------|--------------------|-------|------|
| SFY | Cumulative Grants | Cumulative Outlays | Idaho | U.S. |
| 2014 | \$169,677,324 | \$161,514,374 | 95.2% | 92% |
| 2015 | \$178,522,324 | \$170,829,675 | 95.7% | 94% |
| 2016 | \$187,309,324 | \$179,829,675 | 96.0% | 96% |

Source: (DW NIMS)

slightly from 95% in 2014, to 96% in the current period. The national average for this measure was 96%. Idaho's performance on this measure helped them meet the 9/30/2016 ULO strategy deadline.

| Table 9: Disbursements as a Percentage of Funds Available | | | | |
|---|------------------------------|--------------------|-------|------|
| SFY | Funds Available for Projects | Loan Disbursements | Idaho | U.S. |
| 2014 | \$ 227,582,623 | \$ 169,564,989 | 75% | 79% |
| 2015 | \$ 232,585,126 | \$ 178,682,729 | 77% | 80% |
| 2016 | \$ 237,204,533 | \$ 186,334,383 | 79% | 82% |

Source: (DW NIMS)

Another measure examines how much of the total funds available has been disbursed. The table shows that Idaho's loan disbursements have been steadily increasing relative to the funds available. This compares well with the national trend.

| Table 10: Loan Repayments as a % of DWSRF Assistance | | | | |
|--|------------------|--------------|-------|------|
| SFY | DWSRF Assistance | Repayments | Idaho | U.S. |
| 2014 | \$ 198,490,335 | \$45,492,702 | 23% | 26% |
| 2015 | \$ 210,208,717 | \$49,755,511 | 24% | 27% |
| 2016 | \$ 224,008,087 | \$53,959,806 | 24% | 29% |

Source: (DW NIMS)

been relatively flat, due largely to the transfers of DWSRF repayments to the CWSRF program to address the program pace issue. Meanwhile, across the country the percent of repayments used to make loans is steadily increasing.

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

The loan yield table looks at the rate of return on the Idaho DWSRF project loan fund over the past three years, compared to historical cost indices contained in the Engineering News-Record's Construction Cost Index (CCI). Over the last three years the rate of return on the loan portfolio has been relatively flat. At the same time, for all three years the CCI inflation rate has been higher than Idaho's loan yield, despite a drop in 2016. Losses in the Fund's buying power may be offset by earnings from Fund investment interest. The Investment Yield table describes this yield over the same time period. A higher yield rate earned on the invested balances (loan interest payments, loan

| Table 12: Investment Yield | | | | |
|----------------------------|-----------------------------|---------------------------|------------|--|
| SFY | Investment Interest Revenue | Average Investment Assets | Yield Rate | |
| 2014 | \$ 825,608 | \$ 34,511,239 | 2.4% | |
| 2015 | \$ 731,903 | \$ 35,234,795 | 2.1% | |
| 2016 | \$ 714,423 | \$ 36,188,490 | 2.0% | |

Source: (Annual Report financial statements)

investment earnings and not experience significant erosion of the Fund.

Another way to look at this is by directly comparing the loan yield to the investment yield, and showing the gain (or loss) by choosing to invest DWSRF funds, rather than "investing" them in DWSRF loans. The example shows an improbable scenario

The next table attempts to measure the revolving rate of the Idaho DWSRF program. It shows the percentage of DWSRF assistance (i.e., loans) that is composed of repayments. As the DWSRF program matures, repayments should play a larger part in meeting the need for loans. Idaho's trend over the past three years has

| Table 11: Loan Yield | | | | |
|----------------------|------------------------|---------------------------|----------------|------|
| SFY | Loan Interest Earnings | Average Loans Outstanding | Rate of Return | CCI |
| 2014 | \$ 1,402,668 | \$ 102,888,258 | 1.4% | 2.6% |
| 2015 | \$ 1,418,452 | \$ 106,338,679 | 1.3% | 2.7% |
| 2016 | \$ 1,407,840 | \$ 108,702,176 | 1.3% | 2.2% |

Source: (Annual Report financial statements, ENR)

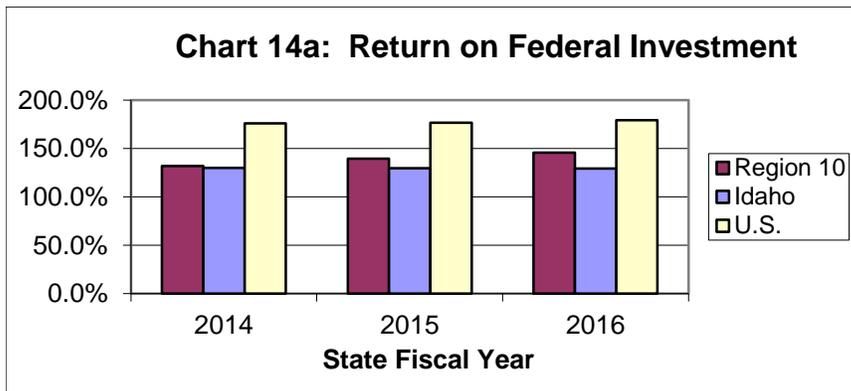
repayments, and interest earnings) can help to offset the potential for inflationary losses from low loan yields. The yield on Idaho's invested DWSRF balances over the last three years, despite being on a downward trend, has continued to outpace the loan yield. As long as the investment yield rate stays higher than the loan yield rate, the program can subsidize a lower loan yield with higher

| Table 13: Comparison of Loan Yield and Investment Yield | | | | |
|---|---------------------------|---------------------------|-------------------------|-------------|
| SFY | Average Investment Assets | Actual Investment Revenue | Estimated Loan Earnings | Gain (Loss) |
| 2014 | \$ 34,511,239 | \$ 825,608 | \$ 483,157 | \$ 342,451 |
| 2015 | \$ 35,234,795 | \$ 731,903 | \$ 458,052 | \$ 273,851 |
| 2015 | \$ 36,188,490 | \$ 714,423 | \$ 470,450 | \$ 243,973 |

where Idaho was loaning out the entire amount of the Fund (i.e., investment assets). As shown in the table, because Idaho has been able to maintain a relatively high rate of return on investments, it is thus better able to grow and sustain the Fund than by putting those funds into DWSRF loans. Other states, however, that consistently have a lower investment yield than a loan yield may want to consider using DWSRF loans as a better method of growing the Fund than investments.

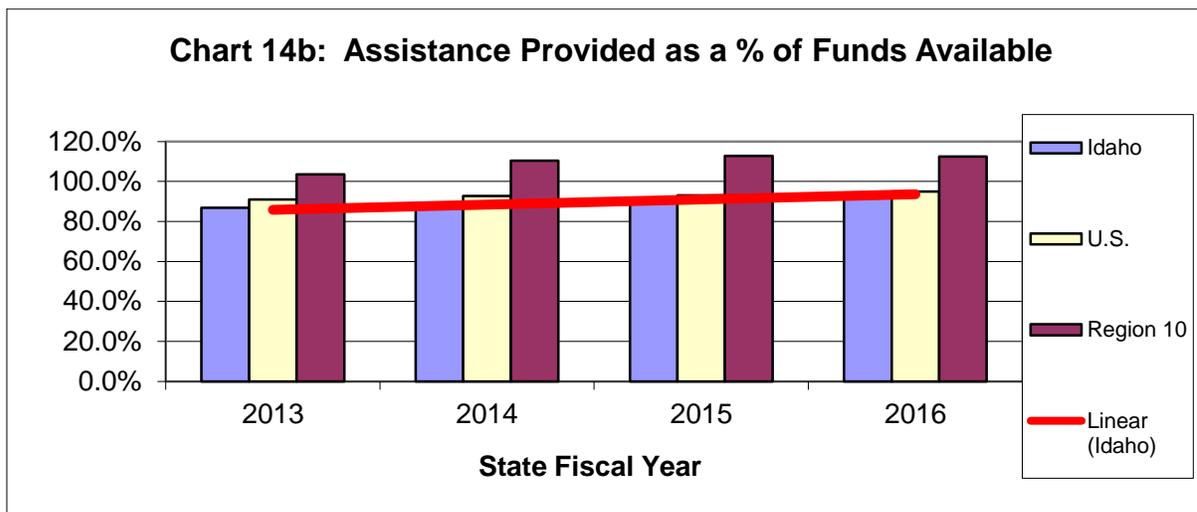
Financial Measures

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

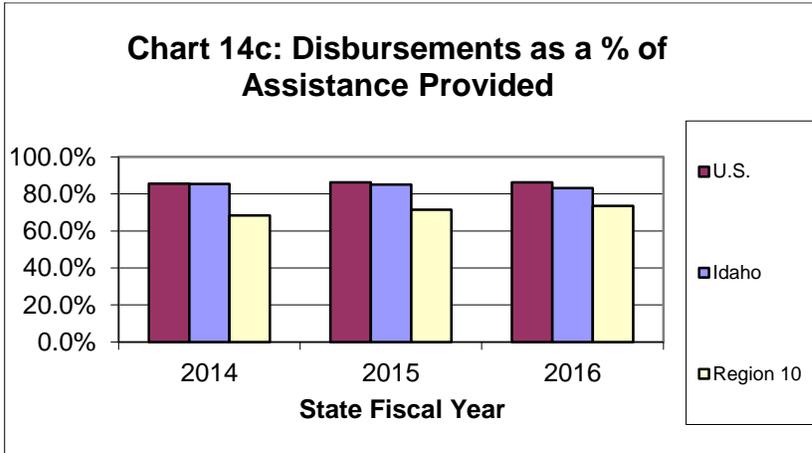


This measure is calculated by dividing the funds disbursed for DWSRF loans by the Federal cash draws for DWSRF loans. In general, the Return on Federal Investment (ROFI) should be at least 120%. Through

the period Idaho has continued to make steady improvement in this measure, topping the threshold level for the last three years. This compares to a national return of 180%.

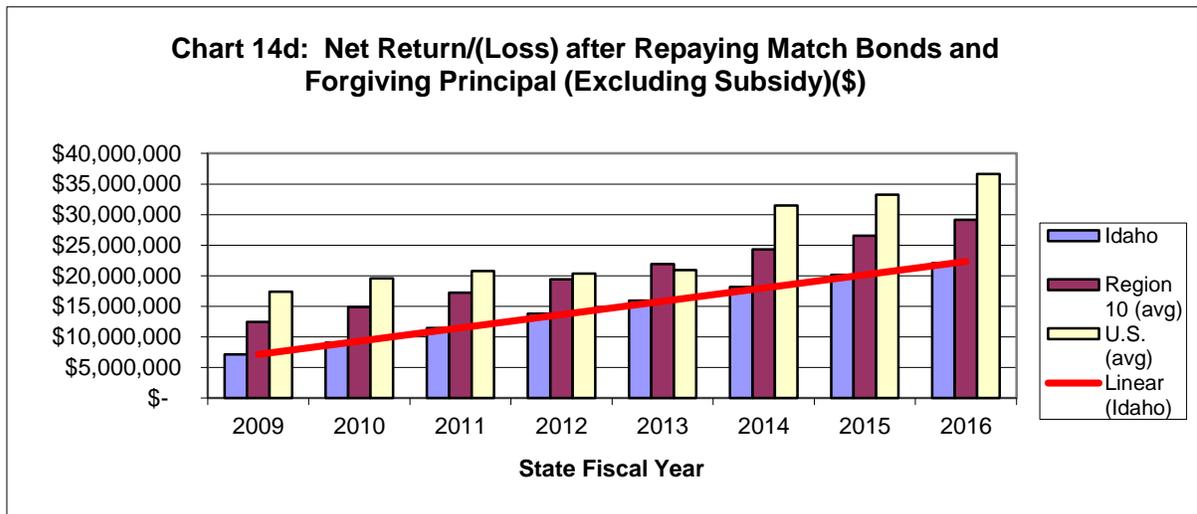


The measure shown in Chart 14b is calculated by dividing the total dollar amount of DWSRF loans by the total amount of funds available for loans. It shows how effectively a state is making loans with the money that is available for loans. Depending on the aggressiveness of a state's cash flow strategy, this measure can exceed 100%. The chart above shows Idaho's performance and trend over the past four years. Idaho's performance over this period has been very good.

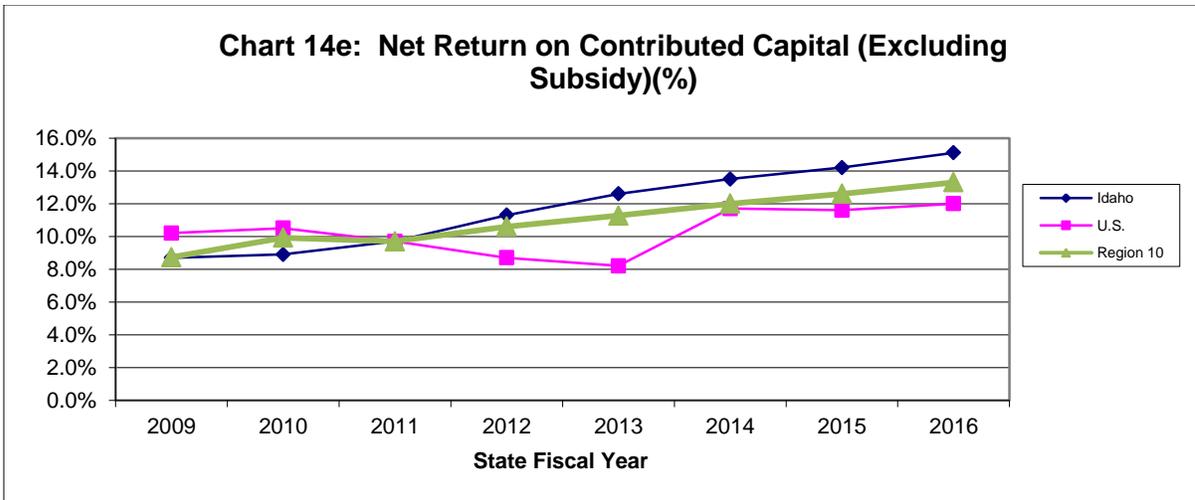


The measure illustrated in Chart 14c shows the speed at which funds from signed loans are disbursed to systems for construction expenses. It is calculated by dividing the total loan disbursements by the total dollar amount of loans. Idaho's performance on this measure declined slightly from 85% to 83% over the last three years. However, this still

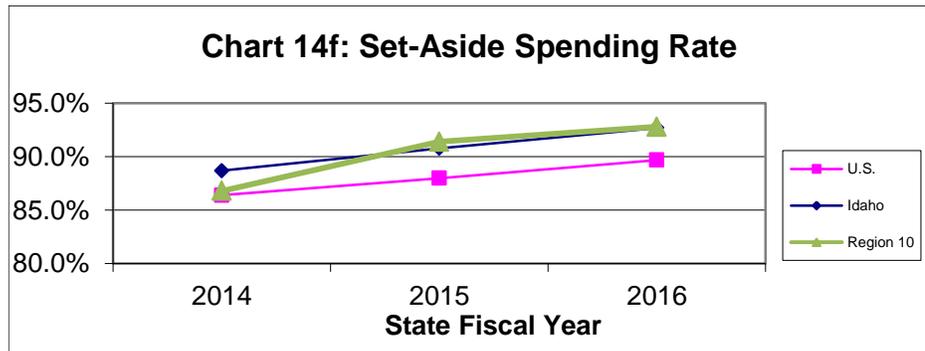
compares well to the national average of 86%.



Because capitalization grants for the last several years have carried the requirement to forgive significant amounts of loan principal, EPA now uses two measures to look at fund growth excluding the portion of each capitalization grant that is not intended to revolve. As demonstrated in the measure above, Idaho's growth rate for the past eight years has shown a strongly positive growth trend, much like the Region 10 and national average. In the chart below, Idaho's return rate for the last five years has outpaced both the national and regional average.



The final measure, shown in Chart 14f, shows how quickly set-aside funds are being utilized. It is calculated by dividing the total amount of set-asides awarded by the total amount of



set-asides expended. Over the last three years Idaho's set-aside spending rate has continued to improve and now at 93% exceeds the national average of 89%.

Cash Draw Rules [40 CFR §35.3560]

The DWSRF regulations require that cash disbursed to borrowers be drawn proportionately from the EPA capitalization grants and the state's matching contributions. Because set-aside use, as well as other factors may have an impact on proportionality, states are given considerable flexibility to choose the proportionality calculation method that works best for them. The Idaho DWSRF uses the grant-specific method. Under that method, cash draws for loan funds were to be drawn from the initial FFY97 grant at the proportional rate of 81% Federal to 19% State, with cash draws from subsequent grants having slightly different proportionality rates depending on the amount of set-asides taken. For SFY 2016, the proportionality rate was 77.53%. The Idaho DWSRF program is in full compliance with this requirement.

Set-Aside Transaction Reviews

As part of the annual review process EPA conducted transaction testing of a sample of 5 set-aside cash draws (for a combined total of \$261,342) made during the period. Please provide responses to questions about several of the transactions summarized in the attached Excel document (ID SFY 16) Transaction Testing worksheet.xlsx.

1. Transactions #1, no questions.
2. Transaction #2, part of the transaction included a shifting of funds titled "Move from HDOP to HDSR--Michelle Cline and Linsey Stanton." Please explain the purpose of this. *DEQ response: the move from HDOP to HDSR is a result of DEQ management evaluating expenditures that were made by our IT staff when working on drinking water projects. These expenditures were charged to Capacity Development and while they were eligible charges for capacity development, ultimately the decision was made to charge them to the SDWIS set-aside. The costs were moved accordingly.*
3. Transaction #3-5, no questions.

HQ-Mandated Transaction Testing

In October EPA HQ announced additional required transaction testing for the DWSRF programs nationwide. For the Idaho DWSRF, this requirement was satisfied by testing transaction #5 above.

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

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

Reports and Audits [40 CFR §35.3570]

Reporting

The state does three types of reporting to EPA on the progress of the Idaho DWSRF. First, every year it completes a data report that is entered into EPA's Drinking Water National Information Management System (DWNIMS) for the Drinking Water Revolving State Fund. The report for SFY 2016 was submitted and EPA incorporated that data in the final DWNIMS national data set that was presented at the Council of Infrastructure Financing Authorities (CIFA) Conference in November 2016 in Austin, Texas. The DWNIMS national data was distributed on a USB thumb drive at the CIFA meeting. The Idaho portion of that data set is the basis for much of this PER. Second, Idaho is required to report project level data on more of a real-time basis

into EPA's Drinking Water Project and Benefits Reporting (PBR) System. Idaho has been entering PBR data on a regular basis. Finally, Idaho's capitalization grants require the state to submit an annual report by October 30 every year. Idaho met this final requirement by submitting the SFY 2016 annual report on September 23, 2016.

Audits

Under EPA's audit guidance, each state is strongly encouraged to conduct a separate, annual audit of the DWSRF programs. In the Drinking Water SRF Operating Agreement between EPA and IDEQ, there is a provision for an annual audit by staff auditors from the Legislative Services Office. During the past several years, including SFY 2015 the Idaho DWSRF program has undergone an annual audit. In addition the DWSRF program will typically be treated as a major program under the Statewide Single Audit (SSA). Starting in SFY 2016, however, Idaho is going with an Agreed Upon Procedures (AUP) process in lieu of a full audit. This is largely aimed at delivering a significant cost savings to the program, while producing essentially the same end product. At the time of this review the AUP process for SFY 2016 was still underway. Preliminary feedback from the auditor to DEQ indicates that there will be no findings.

With regard to the subrecipient audits that are required of DWSRF borrowers that expend more than \$750,000 in Federal funds in a fiscal year, IDEQ has a standard loan condition that addresses this audit requirement. In addition the state provides annual guidance to borrowers about how much in Federal funds they received during the period.

Review of Project Management Practices

The 1996 SDWA Amendments and the DWSRF program regulations also contain a series of requirements that address how the Drinking Water State Revolving Fund programs are to manage projects that receive loans and how those projects are to be planned and constructed. EPA's review of those aspects of the Idaho DWSRF program for SFY 2016 is discussed in this section of the Program Evaluation Report.

Eligible Activities [40 CFR §35.3525]

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

1. Loans at or below market rates (as low as 0%) to finance publicly and privately-owned drinking water infrastructure projects;
2. Assistance to disadvantaged communities, including principal forgiveness, negative interest, for a loan term up to 30 years in length;

3. Buying or refinancing the local debt obligations of municipalities and inter-municipal and interstate agencies within the State at or below market rates, where such debt obligations were incurred and SDWA-eligible construction started after July 1, 1993;
4. Guaranteeing, or purchasing insurance for, local obligations where such action would improve credit market access or reduce interest rates for SDWA-eligible assistance; and
5. Providing a source of revenue or security for the payment of principal and interest on revenue or general obligation bonds issued by the State if the proceeds of the sale of such bonds will be deposited in the Fund.

Since the last on-site review the Idaho DWSRF has issued four new loans for a total of \$14,985,992 to provide the type of assistance allowed by the Safe Drinking Water Act and the program regulations. File reviews of two of these projects were conducted during EPA’s annual review on November 14 – 16, 2016.

Intended Use Plan Development [40 CFR §35.3150]

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

The Idaho DWSRF program submitted a SFY 2016 IUP on June 9, 2016. This IUP was accepted and served as the basis for the award of the capitalization grant available from the FFY 2015 allotment.

Achievement of Goals and Objectives

The SFY 2016 Intended Use Plan spelled out goals for the Idaho Drinking Water State Revolving Fund. Idaho’s progress in achieving these goals can be found in the table below.

| Table 16: Idaho DWSRF Goals – SFY 2016 | |
|---|---|
| Long Term Goals | State Progress Update |
| 1 Protect public health of citizens served by drinking water systems by offering financial assistance to construct the most cost-effective drinking water facilities. Financial assistance includes below- | <i>Through the end of SFY 2016 Idaho had completed 20 annual rounds of establishing priority lists in order to make DWSRF funding available. The demand for funding had historically outstripped the amount available, and DEQ did not want</i> |

| | | |
|---|---|---|
| | market-rate loans, longer loan terms, and may include principal forgiveness for disadvantaged communities under limited circumstances. | <i>communities to have to unnecessarily incur the cost of preparing an application. So loan applications were only solicited for an amount equal to the funds available. In the SFY 2016 IUP, DEQ sought to address this issue by merging the Priority list and Fundable list, since the available funds can meet the needs of both project lists.</i> |
| 2 | Assist public water systems in achieving and maintaining statewide compliance with federal and state drinking water standards. DEQ will provide information and technical assistance in the form of brochures and the electronic Drinking Water Blog, which contains articles on such topics as the DWSRF, operator training and certification, and treatment technology. | <i>DEQ has provided information and technical assistance in the form of brochures, use of social media, auto dialer phone, email messaging and articles in the quarterly Drinking Water Newsletter, on such topics as the DWSRF, operator training and certification, and ground water under the direct influence of surface water monitoring and treatment technology. EPA believes that DEQ is effectively accomplishing this goal with financial support from the DWSRF program, the PWSS program, as well as state funds.</i> |
| 3 | Implement a capacity development strategy. The goal of the capacity development program is to ensure that a public water system's current capacity to deliver safe, reliable water is not only maintained but is expanded to meet future needs. This goal is facilitated by supporting public water systems in maintaining and expanding their technical, financial, and managerial capacity. | <i>DEQ continues to implement an effective and successful Capacity Development program. To that end, the TFM guidance document and sanitary survey modules are being updated, training on RTCR and LCR were offered, and planning grants, which allow water systems in preparing engineering reports and documents necessary to apply for DWSRF loans, continue to be funded out of the Capacity Development set-aside.</i> |
| 4 | Implement a source water assessment and protection strategy. A source water assessment provides information on the potential threats to public drinking water sources. In Idaho, 96% of the drinking water comes from ground water sources. | <i>DEQ continues to effectively assess threats to public water sources. But more importantly, Idaho has shifted the focus to protecting those drinking water sources using a combination of technical and financial assistance, educational materials and training opportunities.</i> |
| 5 | Manage the Idaho DWSRF to ensure its financial integrity, viability, and revolving nature in perpetuity. | <i>DEQ has undertaken a number of significant actions to address the pace of the loan program, while keeping in mind the need to maintain the DWSRF program's financial integrity, viability, and revolving nature. Those actions include; reengineering the loan handbook, applying a kaizen process to the DWSRF SERP, requesting that small systems be allowed to avoid compliance with AIS and Davis-Bacon, and beginning to use equivalency. EPA applauds these efforts.</i> |
| 6 | Entering into SFY 2016, there has emerged an imbalance in the DWSRF | <i>DEQ was able to address this imbalance by transferring \$10 million from the DWSRF to the</i> |

| | and CWSRF loan funds' ability to serve the state's needs. | <i>CWSRF in December 2015. DEQ intends to transfer \$10 million from the DWSRF to the CWSRF in SFY 2017. EPA recognizes that this is an eligible activity, and that the transfer does provide an environmental benefit via the CWSRF program.</i> |
|------------------|--|---|
| Short Term Goals | | State Progress Update |
| 1 | Perform the tasks necessary to ensure that all appropriate loan assistance requested is provided in a timely manner. | <i>DEQ has continued to work diligently to provide loan funding to interested applicants. DEQ signed 4 new loans.</i> |
| 2 | Maintain the on-line DWSRF loan handbook, by making miscellaneous technical corrections and providing timely, up-to-date guidance. | <i>DEQ incorporated a number of revisions into a comprehensive update of the loan handbook which is posted on the DEQ website.</i> |
| 3 | Direct a minimum of approximately 10% of the capitalization grant to sustainability efforts (i.e., Green Project Reserve) and ensure that 20% of the capitalization grant award is provided as a loan subsidy (i.e., principal forgiveness). | <i>While GPR has not been required for the DWSRF program since 2011, DEQ has continued to retain GPR goals to encourage cost effective infrastructure management practices. EPA applauds this voluntary effort which, during SFY 2016, recorded \$5.1 million in GPR activity, well beyond the 10% goal of \$878,700. With respect to loan subsidy, DEQ continues to meet the requirement and exceeded the minimum amount of 20% and distributed over \$2.2 million of additional subsidy to loan recipients.</i> |
| 4 | Make necessary changes to the FFY 2015 EPA capitalization grant application. | <i>DEQ successfully submitted its grant application.</i> |

Findings and Recommendations

1. **Set-aside transaction testing:** Please answer the questions raised (see page 15) about several of the set-aside transactions. ****Completed****