



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

May 9, 2023

TRANSMITTED VIA EMAIL

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

Dear Ms. Chard:

Enclosed is the final State Fiscal Year 2022 Drinking Water State Revolving Fund Annual Program Evaluation Report. The report is based on the SFY 2022 DWSRF Annual Report, discussions with the Oklahoma Department of Environmental Quality staff, an on-site programmatic and financial review conducted from January 23, 2023 through January 25, 2023, and the completion of the United States Environmental Protection Agency's 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 2022.

During the SFY 2021 Annual Review, the EPA noted that subsidy was not met with the Federal Fiscal Year 2019 Capitalization Grant and that ODEQ was going to amend the SFY 2022 Intended Use Plan to increase eligibility and the amount of subsidy available to projects. The EPA congratulates ODEQ's accomplishment of providing all remaining subsidy in the form of principal forgiveness to all eligible project(s).

The EPA commends the ODEQ for targeting systems with health-based violations, primarily Disinfection Byproducts. The 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 infrastructure projects 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 Manager of the Assistance Programs Branch, at (214) 665-7110.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles W. Maguire", is positioned below the word "Sincerely,".

Charles W. Maguire
Director
Water Division

Enclosure

ecc: Eddie Rhandour, ODEQ
Vicki Reed, ODEQ

U.S. Environmental Protection Agency
Region 6



Drinking Water
Revolving Loan Fund

Oklahoma
Program Evaluation Report
FINAL

State Fiscal Year 2022 7/1/2021 - 6/30/2022

Prepared by EPA Region 6
Assistance Programs Branch
May 2023

Oklahoma DWSRF SFY 2022 Program Evaluation Report

I. Executive Summary

The Oklahoma Drinking Water State Revolving Fund (DWSRF) program review summarizes the State Fiscal Year (SFY) 2022 (July 1, 2021 – June 30, 2022) and any significant programmatic information. The Oklahoma DWSRF program is administered cooperatively by the Oklahoma Department of Environmental Quality (ODEQ) and the Oklahoma Water Resources Board (OWRB), as described by 82 OK Stat § 82-1085.71 through 1085.84. For their respective DWSRF roles, the ODEQ performs the programmatic activities and accounting of grant funds, and the OWRB handles the financial processes.

The Environmental Protection Agency (EPA) Federal Fiscal Year (FFY) 2021 capitalization grant (cap grant), awarded to ODEQ on September 28, 2021, provided Oklahoma with \$15,596,000 in drinking water assistance. This required a 20% state match (\$3,119,200) that, when added to the cap grant, totaled \$18,715,200. The ODEQ allowed for 20% (\$3,119,200) of the federal funds to be made available from the cap grant for additional subsidization to eligible recipients in the form of principal forgiveness. The ODEQ also included a minimum six percent subsidy requirement for Disadvantaged Systems in the amount of \$935,760.

The DWSRF program's key financial highlights include a 2.8% increase in net position, from \$314,835,651 in SFY 2021 to \$323,767,946 in SFY 2022. The increase in net position is primarily attributable to an increase in federal grant revenue retained to fund loans. Nineteen (19) new construction loans were closed during SFY 2022 totaling approximately \$269.9 million, which is the largest amount closed since inception of the program.

In support of the EPA goal of 25% reduction in health-based non-compliance by the end of FFY 2021, ODEQ and OWRB are targeting systems with health-based violations (HBV), primarily Disinfection Byproducts (DBPs). During SFY 2022, eight (8) out of nineteen (19) projects funded were systems with HBV. All eight systems received principal forgiveness (PF), with majority of the projects funded at 100% PF.

The SFY21 review noted that subsidy had not been met with the FFY 2019 cap grant. The EPA suggested that ODEQ describe a path for executing assistance agreements with project(s) using the remaining subsidy and to provide milestones for each project including the remaining amount of unused subsidy in the SFY22 Annual Report. In SFY22, ODEQ remedied this issue by amending the SFY22 Intended Use Plan (IUP) to allow additional subsidization for all eligible projects seeking funding through the DWSRF and to increase the amount of subsidy available to projects.

II. Purpose and Scope

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the SFY 2022 operation of the DWSRF Program, and document if the State has complied with the requirements of Section 1452 of the 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,
- 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 on-site from January 23, 2023, through January 25, 2023. During the review, EPA staff relied upon SFY 2021 national indicators since SFY 2022 national program performance indicators were not available at the time of the on-site review. The following ODEQ, OWRB, and EPA staff participated in the review:

ODEQ: Gregory Carr, Eddie Rhandour, Vicki Reed, Tiffany Schwimmer, Justin Hodge, Cara Maggot, and Steven Hoffman

OWRB: Laura Oak

EPA: Adrian Chavarria, Ruben Camacho, Anna Pina, Angela Harris, and Brian Boyd.

III. Grant Compliance and Other Review Requirements

Upon review, it was determined that the State of Oklahoma met all compliance requirements as stated in regulations 40 CFR Part 35, EPA/ODEQ operating agreement, and all compliance requirements for the open grants FS-986814-19 FS-986814-20. The ODEQ has also satisfied all the required elements of the SFY 2021 Annual Review.

IV. Review Results

A. Programmatic/Technical Review

1. Project File Review

EPA reviewed ODEQ’s files for the following projects:

Loan Reviewed	Date Loan Closed	Loan Amount
Okmulgee MA (V) (ORF-22-0011-DW) CATEX	December 21, 2021	\$1,350,000 Loan \$437,500 Forgiveness \$912,500 Net
Miami SUA (ORF-19-0029-DW) CATEX	May 19, 2020	\$2,785,000 Loan \$100,000 Forgiveness \$2,685,000 Net

Okmulgee MA (V): Okmulgee is a city in Okmulgee County, Oklahoma with a population of 13,495. The Okmulgee Municipal Authority (MA) serves approximately 20,000 customers.

Okmulgee MA obtains raw water from two city owned lakes west of Okmulgee. Existing water lines in five areas of the water system are cast iron, in excess of 60 years old, and are in poor condition. The proposed project includes the construction of 1,350 LF of 8-inch polyvinyl chloride (PVC) water line and 8,360 LF of 6-inch PVC water line.

Project files have been well maintained and include the proper documents required for compliance with the DWSRF program.

Miami SUA: Miami is a city in Ottawa County, Oklahoma and has a population of 12,885 as of 2021 and serves approximately 14,000 drinking water customers.

Approximately 60% of the city’s water distribution system is cast iron pipe. Many of these lines have been in service for 50 to 70 years and are overdue for attention to reach a desired service life of 100 years. Approximately 27% of the pipes have a diameter less than 6-inches which could adversely affect the ability to provide adequate fire protection flows. The proposed project will improve flow by removing dead-end mains, join pressure zones to maintain static pressure, and improve the reliability of the water system during maintenance of the storage tanks.

The proposed project includes the following:

- Replacement of existing 6-inch water line along East Central Ave. with approximately 1,000 LF of 8-inch HDPE water line and approximately 5,400 LF of 12-inch water line with all appurtenances.
- Construction of 8-inch HDPE water line along East NE St. to connect water lines between East BJ Tunnell Blvd. and 14th Ave. NE with all appurtenances.
- Construction of 5,500 LF of 12-inch HDPE water line with all appurtenances along State Highway 69A to tie in State Highway 10 and Progress Industrial Park pressure zones.
- Construction of one new storage tank and yard piping to connect to existing water line along State Highway 69A near Well Number 7.

Project files have been well maintained and include the proper documents required for compliance with the DWSRF program.

2. Short and Long Term and Program/Project Accomplishments

As documented in the ODEQ's SFY 2022 Annual Report, ODEQ met all short-term and long-term goals established by the SFY 2022 Intended Use Plan (IUP). The following are some of the project/programmatic and financial highlights for SFY 2022.

- ODEQ provided 3.4% of assistance to small public drinking water systems and initiated construction on 11 projects for municipalities that had a population of 10,000 or less.
- During SFY 2022, ODEQ completed the second phase of "Project Baseline" which is a capacity development assessment of municipal water supplies and rural water districts focused serving fewer than 10,000 persons. This involves meeting with water system personnel, conducting interviews focused on determining the technical, managerial, and financial (TMF) condition of the water supply, and offering assistance and resources to the system to address noted deficiencies. The information gathered during the baseline assessment is being used to guide targeted TMF technical assistance to water systems in greatest need of help, as well as strategically to broadly plan technical assistance outreach and focus areas for DEQ and other technical assistance providers.
- ODEQ completed source water assessments to aid in implementing Capacity Development Strategy. ODEQ has partnered with the Oklahoma Rural Water Association (ORWA) to begin the development of source water protection plans for small public water supplies.
- ODEQ continues to encourage the consolidation and/or regionalization of small public water systems that lack the capability to operate and maintain systems in a cost-effective manner by offering subsidization in the form of principal forgiveness.
- ODEQ provides a "disadvantaged community program" for systems wishing to receive financing for up to a 30-year loan (up to a 40-year loan for eligible communities subject to useful life of infrastructure) and closed six (6) loans for a term between 20 and 30 years during SFY 2022.

3. Program Highlights and Initiatives

a. Binding Commitments:

ODEQ made 19 new binding commitments totaling \$269.9 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 2022 include:

Eleven loans to small communities (serving 10,000 or under)

- New Cordell Utilities Authority (UA) - \$2,250,000
- Okmulgee Co. Rural Water District (RWD) #4 - \$300,000
- Comanche PWA - \$200,000
- Porter PWA - \$787,480
- Anadarko PWA - \$135,868

- McIntosh Co. RWD #9 - \$695,000
- Comanche Co. RWD #2 (II) - \$2,545,000
- Welch PWA - \$450,000
- Pontotoc Co. RWD #6 - \$730,000
- Hominy PWA (II) - \$300,000
- Wewoka PWA - \$400,000

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

- McAlester PWA - \$32,500,000
- Okmulgee MA (V) - \$1,350,000
- Oklahoma City Water Utilities Trust (WUT) (X) - \$31,645,000
- Edmond PWA (VII) - \$45,000,000
- Edmond PWA (IX) - \$140,000,000
- Elk City PWA (II) - \$1,700,000
- Enid MA (V) - \$4,000,000
- Lawton WA (IV) - \$5,000,000

ODEQ completed construction on 9 projects totaling \$25 million during SFY 2022.

- b. Assistance Addressing Health-based Non-compliance** - In support of the EPA goal of a 25% reduction in health-based non-compliance by September 2022, ODEQ and OWRB are targeting systems with health-based violations (HBV), primarily Disinfection Byproducts (DBPs). During SFY 2022, eight (8) projects out of nineteen (19) projects funded were systems with HBV. All eight systems received principal forgiveness (PF), with majority of the projects funded at 100% PF. Those systems include McAlester Public Water Authorities (PWA), Okmulgee Co. Rural Water District (RWD) #4, Comanche PWA, Porter PWA, McIntosh Co. RWD #9, Welch PWA, Hominy PWA (II), and Wewoka PWA.

4. Program Management and Staffing

At the time of the on-site review, ODEQ noted that the staff for SFY22 was not sufficient to manage the program and there is a need for additional staff, especially for engineering and environmental review.

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 2022, \$3,177,781 of administrative fees were invoiced and collected and an additional \$80,458 was earned from interest. Staff training, Council of Infrastructure Financing Authorities (CIFA) workshop registration, publications, accounting software and annual maintenance fee, state match, and payroll accounted for \$1,184,216 of DWTAF expenditures. All expenditures made from the DWTAF were for eligible DWSRF purposes. The balance of the DWTAF as June 30, 2022, was \$9,178,320.

6. Set-Aside Programs

Section 1452 of the SDWA authorizes four set-asides to enable states to implement the requirements of the SDWA. ODEQ administers the set-aside funds for the DWSRF program and reserved 31% of the FFY 2021 cap grant. 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 2022 set-aside workplans as well as the SFY 2022 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.

Administrative Set-Aside (4%) - ODEQ reserved \$623,840 from the FFY 2021 cap grant to cover administrative costs incurred by both ODEQ and OWRB during SFY 2022. A total of \$443,840 for SFY 2022 was budgeted for expenses associated with administration of the DWSRF program.

The specific goal for the DWSRF Administrative account is to provide administration of the DWSRF by providing loans to the systems designated for funding. Outputs and deliverables for this set-aside will be the successful completion of loans for infrastructure construction projects to public water systems to ensure drinking water is safe and in compliance with the goals of the SDWA.

Two contracts were listed as potential projects during the year. The Annual Audit Contract was listed and awarded for \$36,750. The second contract was the Interagency Agreement (I/A) with OWRB for \$180,000 which was fully expended during SFY 2021. ODEQ and OWRB expended \$376,783 from the FFY 2020 grant Administration Set-aside, and \$218,321 from the FFY 2021 grant Administration Set-aside during SFY 2022.

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.

Small Systems Technical Assistance (SSTA) (2%) – ODEQ reserved \$311,920 (2%) from the FFY 2021 cap grant fund small system technical assistance provided by ODEQ personnel. These funds were reserved to provide technical assistance to public water supply systems serving populations of 10,000 or fewer which accounts for 96% (1,279) of the water supply systems which serve over 1.2 million Oklahomans. The Small Systems Technical Assistance set-aside funded efforts include assistance to small water supply systems in preparation and

application for DWSRF loan projects and to systems in need of improved operational controls.

The expenditures from the FFY 2020 cap grant were \$240,262 and \$60,485 from the FFY 2021 cap grant for the SFY 2021 reporting period.

State Program Management Set-aside (10%) – ODEQ reserved \$1,559,600 (10%) of the FFY 2021 cap grant to fund a portion of the Public Water Supply Supervision (PWSS) Program during SFY 2022.

Funds were reserved to provide technical assistance and other enforcement activities of the PWSS Program, as well as conducting Sanitary Surveys. During SFY 2022, the Program Management set-aside expended \$346,785 from the FFY 2019 cap grant including payroll funding corrections, and \$827,671 from the FFY 2020 grant.

This set-aside program was administered by the Water Quality Division (WQD) staff, State Environmental Lab Services (SELS) staff, and ECLS staff.

- Lab Capacity and Development (LCD)
 - Primarily, utilization of this funding has been applied to staff participation in various workshops and informational exchanges associated with Lead and Copper Rule Revisions (LCRR), perfluoroalkyl substances (PFAS), and other emerging contaminants. SELS staff are continually spending time on analytical method development for quantifying PFAS and lithium in drinking water and expanding analytical capacity for Polymerase Chain Reaction (PCR) testing as it relates to source water protection and identification and quantification of microbial contaminants.
- State Environmental Laboratory Capacity Maintenance Activities
 - This fiscal year, the SELS utilized DWSRF funding to procure a high-performance liquid chromatograph – triple quadrupole mass spectrometer to analyzing PFAS in drinking water in support of UCMR 5 under the SDWA.
 - This instrument once fully validated will expand laboratory capacity to analyze emerging contaminants of interest such as perfluorooctane sulfonate (PFOS), perfluorooctanoic acid (PFOA) and other PFAS in public water supplies to determine occurrence and assess risk in response to the EPA’s Drinking Water Health Advisories of 2016 for PFOS/PFOA.
 - This instrument can also be able to identify non-target PFAS to further characterize the occurrence of these chemicals in Oklahoma’s public water supplies.

Local Assistance Set-aside (15%) - ODEQ reserved \$2,339,400 (15%) of the FFY 2021 cap grant for the Local Assistance Set-Aside for capacity development activities. During SFY 2022, the Local Assistance and Other State Programs’ set-aside expended \$1,556 from the FFY 2018 capitalization grant including payroll funding corrections, \$37,856 from the FFY

2019 grant, \$754,143 from the FFY 2020 grant, and \$1,483,223 from the FFY 2021 grant for a total of \$2,276,652.

The Local Assistance and Other State Programs' set-aside expended \$1,556 from the FFY 2018 cap grant including payroll funding corrections, \$37,856 from the FFY 2019 grant, \$754,143 from the FFY 2020 grant, and \$1,483,223 from the FFY 2021 grant for a total of \$2,276,652. The FFY 2018, 2019, 2020, and 2021 cap grant Local Assistance Set-Asides were used to fund:

- Local Assistance and other State Programs' Activities,
- Water Loss Program Activities,
- ECLS – Non-Primacy,
- Crypto Activities,
- Harmful Algal Blooms (HAB),
- RTCR Assessments,
- Capacity Development Assessments,
- Pilot PWS Small System Technical Sampling Assistance, and
- EPA DBP Pilot Project.

Rate Analysis Activities: ODEQ, through its contract with ORWA, conducted 14 rate studies with 8 municipal systems and 6 rural water districts during SFY22. Based on the rate studies completed, the participating systems experienced an average improvement in operating ratio of 0.22, and 12 systems moved from insolvency to financial sustainability.

Complaint and Spill Investigations: The ECLS Division manages the Environmental Complaints Program. The procedures allow for quick response and a rapid resolution to these types of complaints. ECLS, through its 57 local Environmental Programs Specialists (EPSs) strategically located across the state, investigates citizen complaints, documents each investigation in a central repository, and works toward correction of all complaints in its jurisdiction within 90 days or moves the complaint to enforcement.

Technical Assistance: ECLS, through its local Environmental Programs Specialist, has an extensive history of providing technical service to the citizens and communities of Oklahoma and provides technical assistance to its citizens and PWSSs, including the following:

- Discussion and clarification of rules and regulations through site visits; phone calls; and mailing ODEQ regulations, fact sheets, and/or letters.
- Operational and compliance assistance to municipalities and/or regulated facilities.
- Participation in public meetings.

During SFY22, 136 technical assistance visits were provided to PWSSs and Oklahoma citizens with questions about their drinking water.

Sanitary Surveys and Site Inspections: EPA's primacy agreement with Oklahoma requires a sanitary survey be conducted for each PWS system once every three years. PWS District Engineers and Representatives have taken over the responsibility from ECLS of conducting Sanitary Surveys of PWS systems that provide complex treatment. Two-hundred-forty-eight (248) Sanitary Surveys were completed during SFY 2022.

ECLS EPSs conducted 1001 (non-primacy) site inspections at all PWS systems not scheduled for triennial Sanitary Surveys during SFY 2022 to ensure PWS systems are continuing to be properly operated and maintained and to continue maintaining good working relationships with PWS Operators.

7. Marketing

As part of the on-going efforts to help market the DWSRF program, ODEQ has conducted/participated in activities towards marketing, outreach, and technical assistance. A few of those activities for SFY 2022 include:

- Attending and presenting at the Oklahoma Rural Water Association (OWRA) Fall and Spring Conferences.
- 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 Funding Agency Coordinating Team (FACT).
- 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”.
- Presentations at conferences and workgroups to establish availability of small systems technical and financial assistance.
- Continue to provide subsidy for public water systems with health-based violations, such as DBP issues.
- ODEQ presented, or assisted at a booth, at eleven (11) conferences during SFY 2022. Seven (7) were in person, and four (4) were remote.

8. Additional Subsidization

Federal Fiscal Year	Grant Number	Capitalization Grant Amount	Additional Subsidization Required	Additional Subsidization Assigned**	Percentage of Grant Additional Subsidization
2019	FS-98681419	\$15,580,000	\$3,120,000	\$3,120,000	20.0%
2020	FS-98681420	\$15,610,000	\$2,185,400	\$2,185,400	14.0%
2021	FS-98681421	\$15,596,000	\$2,183,440	\$2,183,440	14.0%

*\$15,600,000 minus \$20,000 for Needs Survey; ** According to OK DWSRF SFY 2022 Annual Report. See pages 8 & 9.

The FFY 2021 cap grant agreement had a subsidy requirement of “at least” 14% and ODEQ and OWRB chose to provide a 14% subsidy limit of \$2,183,440. ODEQ’s focus for this subsidy will be public water supplies which have HBVs, such as DBP issues. However, when these types of projects are not ready to proceed, the focus shifts towards other initiatives such as, regionalization, consolidation, or other compliance issues.

During the SFY 2021 Annual Review, EPA suggested that ODEQ describe a path for executing assistance agreements with project(s) using the remaining subsidy from the FFY

2018, FFY 2019, and FFY 2020 cap grants and to provide milestones for each project. To remedy this, ODEQ revised the SFY 2022 IUP to provide additional subsidization to all eligible projects seeking funding through the DWSRF program. For those projects, the amount of subsidy per project will be \$250,000 or 25% of the loan amount, whichever is less. This allowed ODEQ to clear the remaining subsidy from the cap grants for FFY 2018, FFY 2019, and FFY 2020. All of the subsidy for FFY 2021 was provided as principal forgiveness.

9. Disadvantaged Community Subsidy

Federal Fiscal Year	Grant Number	Capitalization Grant Amount	Disadvantaged Subsidization Committed (Required 6% Min.)	Disadvantaged Subsidization Assigned (35% Max.)	Percentage of Grant additional Subsidization
2020	FS-98681420	\$15,610,000	\$936,600	\$5,463,500	6%
2021	FS-98681422	\$15,596,000	\$935,760	\$5,458,600	6%

The FFY 2021 cap grant has a Disadvantaged Community subsidy requirement of “at least” 6% and a maximum of 35%. A “disadvantaged community” refers to those communities with a median household income that is less than or equal to 85% of the national median household income according to the United States Census Bureau/American Community Survey. The ODEQ also provides up to 40-year loan terms to eligible disadvantaged communities. These loans are subject to the useful life of the project once constructed.

In addition, ODEQ will use 6% of the FFY 2021 cap grant, or \$935,760, for disadvantaged communities serving 10,000 people or fewer. The amount of subsidy per project will be \$100,000 or 25%, whichever is less for a project costing \$300,000 or more. For a project costing less than \$300,000, The amount of subsidy will be decided on a case-by-case basis for projects costing less than \$300,000.

10. Green Project Reserve (GPR)

The FFY 2021 cap grant encourages assistance for Green Project Reserve (GPR) projects, but GPR is not a mandatory requirement. ODEQ did not provide subsidy assistance for GPR projects during SFY 2022 but continues to fund and provide technical assistance to small systems in the form of leak detection, water loss and energy audits through its contract with Oklahoma Rural Water Association.

11. 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 3rd, 2020.

12. Aquarius Award

The DWSRF AQUARIUS program nationally recognizes DWSRF-funded projects for exceptional focus on five main areas. These projects are examples of the high level of innovation possible with the DWSRF. ODEQ nominated the Okmulgee Water Treatment Plant Disinfection Improvements Project for the 2022 DWSRF Aquarius Program,

specifically for the “Excellence in Innovative Financing” category, the “Excellence in Systems Partnership” category, and for the “Excellence in Environmental and Public Health Protection” category. At the time of this review, the 2022 Aquarius Award winners have not been announced.

Construction for this project was completed in December 2021 which included the construction of liquid ammonium sulfate (LAS) storage and feed system, phosphate storage and feed system, clearwell effluent flow meter and meter vault, and all necessary appurtenances to achieve compliance with the Disinfection Byproduct Rules (DBPR) Stage 1 and Stage 2.

B. Financial Review

OWRB is responsible for most of the accounting and financial processes, including administration of assistance agreements and bond sales/purchases. ODEQ is responsible for the programmatic work and managing the DWSRF set-aside programs.

1. Audit of the Fund

On September 19, 2022, the independent auditors, Arledge & Associates, P.C. Certified Public Accountants, audited the DWSRF program’s financial statements for SFY 2022. 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 2022, dated September 19, 2022, received an Unmodified Opinion. There were no findings of material weaknesses or significant deficiencies identified. ODEQ qualifies as low risk and continues to maintain clean audits.

2. State Match

The SDWA requires state matching funds equivalent to 20% of each capitalization grant. The state match must be received before cap grant project fund payments can be accepted. The state matching funds for the FFY 2021 cap grant in the amount of \$3,119,200 were provided partially through the Series 2020 DWSRF Bond Issue in the amount of \$2,567,600, and through a transfer from the DWSRF Administrative Fund, held outside the DWSRF, in the amount of \$551,600. There is an option to refund the Drinking Water Administrative Fund with bond proceeds from an anticipated bond issue scheduled to close during SFY 2023.

3. Unliquidated Obligations (ULOs)

States are encouraged to have no more than two open cap grants at any one time. ODEQ continues to follow the first-in-first-out (FIFO) policy of drawing funds from the older grant first. According to the EPA’s DWSRF ULO Report, dated July 1, 2022, ODEQ has two open cap grants (oldest open Cap Grant FY 2020) in SFY 2022 due to unspent subsidy funds. ODEQ is required to have this amount of subsidy available in federal funds. There was a total remaining balance of \$11,203,457 which includes \$8,564,944 in project funds and \$2,683,513 in set-aside funds. These balances are in the acceptable range as noted in the table below. The remaining balance is less than the annual cap grant amount that ODEQ receives. ODEQ rolls

over the remaining funds to the new cap grant and begins disbursing funds from the oldest grants and with any eligible invoices received by ODEQ.

DWSRF ULOs by State										
As of 7/01/2022										
State	All Funds (Project & SA)			Project Funds Only			Set Aside Funds Only			State
	Federal Cap Grants Awarded	Project & SA ULOs	ULO as a % of Federal Cap	Project Funds Awarded	Project Fund ULOs	ULO as a % of Project Funds Awarded	SA Awarded	SA ULOs	ULO as a % of SA Awarded	
OK	363,401,000	11,203,457	3.1%	282,583,833	8,564,944	3.0%	80,817,167	2,638,513	3.3%	OK

4. Financial Health of the Fund

According to the SFY 2022 Audit Report, the program’s net position has increased by over 2.8%, from \$314,835,651 in SFY 2021 to \$323,767,946 in SFY 2022. The increase in net position is primarily attributable to an increase in federal grant revenue retained to fund loans. ODEQ has seen an increase in outstanding loans in the amount of \$79,812,401. As of June 30, 2022, ODEQ had 160 outstanding loans with a principal balance of \$662,905,990. In comparison, ODEQ had 152 outstanding loans with a principal balance of \$583,093,589 at the end of SFY 2021. During SFY 2022, ODEQ closed 19 new construction loans totaling approximately \$269.9 million, which is the highest loan amount closed since inception of the program. In addition, ODEQ has completed construction on 9 projects totaling \$25 million. These financial numbers are indicative of ODEQ’s commitment to cultivate and maintain the financial health of the fund. ODEQ made binding commitments for 20 new loans, totaling approximately \$270.4 million, in drinking water construction for communities to correct problems and achieve compliance with the SDWA.

ODEQ and OWRB continue to use their financial advisors, Hilltop Securities, to update the DWSRF capacity model which gauges the long-term health of the program. ODEQ uses the model to continually monitor the program throughout each fiscal year and to assure the perpetuity of the program. The model illustrates the overall impact to the program’s capacity because of extended term financing, fluctuating federal funding levels, lending rate policies, market volatility, and etc. There were no defaults or deficiencies reported or found during the review. The financial goals of ODEQ are to preserve the fiscal integrity of the DWSRF program and maintain the fund in perpetuity. Overall, ODEQ has demonstrated its ability to financially manage and maintain the fund in perpetuity.

5. Financial Indicators

The State reported the following cumulative financial indicators:

OKLAHOMA DWSRF Financial Indicators (as of June 30, 2022)					
NIMS Line #	Financial Indicators Based on Cumulative Activity	2020	2021	2022	National Average 2021*
401	Disbursements as a % of Funds Available	80%	80%	74.9%	83%
418	Return on Federal Investment	416.1%	438.4%	467.4%	213.9%
419	Assistance Provided as a % of Funds Available	100.7%	109.0%	106.8%	95.7%
420	Disbursements as a % of Assistance Provided	79.6%	73.0%	70.1%	86.9%
420.1	Undisbursed Funds to Average Disbursements (Years to Disburse)	3.1 yrs.	3.2 yrs.	4 yrs.	2.9 yrs.
421	Additional Assistance Provided Due to Leveraging	\$633.2M	\$868.3M	1.08B	NA
424	Set-Aside Spending Rate	95.1%	95.0%	98.7%	89.9%
425	Net Return after Repaying Match Bonds Excluding Subsidy	\$8.6M	\$9.4M	\$7.08M	NA
426	Net Return on Contributed Capital Excluding subsidy	3.3%	3.5%	2.49%	NA
	Total Net	\$118.1M	\$11.0M	\$36.3M	NA
	Net Interest Margin	0.3%	0.22%	NA	0.7%

*2022 National Information Management System Report on All States was not available during time of review. National Average will be updated.

During the review, the EPA shared the financial indicators for SFY 2022, along with the analysis of the indicators and trends. The following is a description of each indicator along with a summary of the results:

- **Disbursements as a Percentage of Funds Available** indicator is best used for programs that have a pace above 100% and is better suited to analyze the program’s disbursement versus the national average. ODEQ’s pace of 80% has dropped to 75% for SFY 2022. Pace does not measure how quickly funds are disbursed once the loan agreement has been signed. States that are lagging in this measure, or have declining pace levels, may need to review loan policies and procedures, and outreach techniques.
- **Return on Federal Investment** is described as “Cumulative Assistance Disbursed as a percentage of Cumulative Federal Outlays”. ODEQ has disbursed 4.67 times more cumulative assistance compared to federal outlays. In SFY 2021, ODEQ achieved a federal return on investment of 438.4%, which is well above the SFY 2021 national average of 213.9% for all states. This indicates that demand is high, and assistance is being provided in larger amounts compared to what is received in federal funds. ODEQ closely monitors the demand for project funds leveraging the program in SFY 2022 to meet funding needs.
- **Assistance Provided as Percentage of Funds Available** is known as the “pace” of the program and represents the percentage of money available that has been committed to executed loans. At 106.8%, ODEQ’s cumulative pace is well above the national average of 95.7%. This places ODEQ’s “pace” as one of the top programs in the nation for SFY 2022. ODEQ awarded 19 assistance agreements for approximately \$262.6M, which is the highest total amount ODEQ has ever provided, surpassing last year’s amount which was the highest since the inception of the DWSRF program. The pace has continued to increase over the past three years showing that the program is trending in the right direction and that ODEQ has committed all their available funds.
- **Disbursements as Percentage of Assistance Provided** is known as the disbursement pace and measures the pace at which projects are proceeding to completion based on the relationship between loan disbursements and the amount of funding provided. This indicator is appropriate for programs with a pace below 100%. This measure provides some insight on how quickly states are disbursing funds to projects. ODEQ’s pace has decreased as more funding has become available.
- **Ratio of Undisbursed Project Funds to Disbursements/Undisbursed Funds to Average Disbursements (Years to Disburse)** compares ODEQ’s disbursement rate over a set time-period to the amount of cash on hand. The measure tracks how efficiently 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 the average annual disbursements over the past three years. This indicator is closely monitored by both EPA HQ and EPA Region 6 to ensure ODEQ is providing all available funds. This indicator increased from 3.2 years in SFY 2021 to 4 years in SFY 2022, which is slightly above the national average. EPA is concerned that a high figure could indicate that the state has significant cash on hand and may not be revolving the increase of funds through the program quickly.
- **The Additional Assistance Provided Due to Leveraging** compares the cumulative amount of funds available after deducting the net funds provided by the issuance of bonds. Since the beginning of the program, ODEQ has provided \$1.08B in additional assistance

due to leveraging. Since this indicator is dependent on the size of the program, comparisons to the national averages are of limited value and are not shown.

- **Set-Aside Spending Rate** measures the rate the set-aside funds are expended. ODEQ set-aside spending rate has risen to 97.2% in SFY 2022 from the previous year's 95%. ODEQ is performing above the national average and is spending funds in a timely manner.
- **The Net Return after Repaying Match Bonds Excluding Subsidy** indicator is shown as a dollar amount that indicates the net earnings after state match bonds are repaid and any remaining loan principal is forgiven. This a positive value that indicates how well ODEQ is maintaining its invested and contributed capital. A negative value shows that expenses are exceeding revenues after state match bonds are repaid and any loan principal is forgiven. ODEQ had a net return of \$7.08M as of June 30, 2022.
- **The Net Return on Contributed Capital** indicator is shown as a percentage and indicates the net return on the invested/contributed capital after repaying all state match bonds and forgiving all loan principal. This indicator estimates the growth of the program relative to the investment earnings and to the federal and state contributed capital. A positive value indicates the program's growth, and a negative value indicates a net loss. As of June 30, 2022, ODEQ has a net return of 2.5%. This indicator has remained positive for the last several years.
- **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. In SFY 2022, ODEQ's total net was \$36.3M, indicating a continued 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 ODEQ is generating from its total assets through loans and investments after accounting for the interest expenses associated with match and leveraged bonds. At the time of this review, the SFY 2022 Net Interest Margin indicators were unavailable.

Overall, the financial health of the program continues to remain strong and is trending in a positive direction which is evident as the PACE of the program continues to grow. ODEQ reports that it closely monitors the cash available versus the amount obligated to ensure availability of funds when borrowers submit disbursement requests. ODEQ leverages the program when needed resulting in a large inflow of cash to the fund that takes time to disburse. OWRB monitors funds throughout the year looking at the expected monthly disbursements to borrowers, cash balances, bond proceeds, interest earnings, cap grant fund available, expected loan closings, and the project priority list.

6. Transaction Testing

The EPA's Annual Review guidance document and the Standard Operating Procedures for State Revolving Fund programs instructs each EPA region to review four cash draws that occurred in the State's fiscal year being reviewed. EPA reviewed four draws for SFY 2022, which are shown in the table below. All invoices reviewed were found to be properly made for eligible DWSRF expenditures and were appropriately recorded in the ODEQ/OWRB's accounting records. There were no improper payments found for these transactions.

Grant #	Date	Federal Draw	Type of Draw
FS98681420	08/16/2021	\$ 358,147.34	Set-Aside
FS98681420	12/23/2021	\$ 851,125.00	Loan
FS98681421	06/21/2022	\$ 851,221.11	Loan
FS98681421	05/19/2022	\$ 328,721.98	Loan

EPA HQ provided a list of negative draws for the regions to review for SFY 2022. There were no negative draws for the SFY 2022.

V. EPA SFY 2022 Recommendations Action Items

1. Financial Indicators

EPA Recommendation: We encourage ODEQ to continue focusing on improving the “Disbursement as a Percentage of Assistance Provided,” as this indicator continues to remain below the national average in SFY 2022. EPA recognizes that an increase in pace and large increases in loan closings can create a lag which would cause the percentage to decrease. EPA also acknowledges that one financial indicator may not be indicative of the program’s direction as the “Pace” continues to rise well above the national average. EPA encourages ODEQ to develop ways to improve the performance of this indicator including 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 known there are other factors out of the state’s control can impact delays in construction and affect disbursement rate. EPA is pleased with the overall performance of the financial indicators and will continue to monitor this indicator and look at other possible indicators that would be more inclusive to programs with a “Pace” over 100%.

VI. Prior Year Action Items from SFY 2021 Review

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 continued to decrease in SFY 2021. 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.”

EPA Status update: On-going.

EPA Recommendation: Please ensure that all required minimum subsidy funds are executed in a loan/bond assistance agreement by the end of the second year of an awarded capitalization grant. Currently, subsidy this is not being met with the FFY 2019 cap grant and will require the program to designate a solution in the annual report. The Annual Report should describe the ODEQ's path to executing assistance agreement with project(s) using the remaining subsidy and should provide milestones for each project which includes the remaining amount of unused subsidy. Although additional subsidy is not fully assigned for FFY 2019 and FFY 2020 cap grants, EPA is optimistic that this will improve with the changes made to the SFY 2022 IUP to increase eligibility and the amount of subsidy available to projects. EPA will monitor the progress that result from this amendment.

EPA Status update: ODEQ opened up subsidies to capture more communities in order to meet minimum subsidy. All remaining subsidy has been cleared.

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 2022 in accordance with EPA's SRF Annual Review Guidance.