



REGION 6

DALLAS, TX 75270

August 8, 2024

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

Dear Ms. Chard:

Enclosed is the final State Fiscal Year 2023 Drinking Water State Revolving Fund Annual Program Evaluation Report. The report is based on the SFY 2023 DWSRF Annual Report, discussion with the Oklahoma Department of Environmental Quality staff, an on-site programmatic and financial review conducted on February 7 and 8, 2024, 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 2023.

The EPA congratulates ODEQ's accomplishment of providing all twenty-one of its loans closed in SFY 2023 to Disadvantaged Communities. The total amount of these agreements was \$82,387,224.55 and included awarding all of the program's BIL General Supplemental additional subsidy. 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, Manager of the Assistance Programs Branch, at (214) 665-6464.

Sincerely,

Troy C. Hill, P.E.
Director
Water Division

Attachment:

State Fiscal Year 2023 Drinking Water State Revolving Fund Annual Program Evaluation Report

ecc: Candy Thompson, ODEQ
Vicki Reed, ODEQ



State of Oklahoma Drinking Water State Revolving Fund

Program Evaluation Report

SFY 2023

(7/1/2022– 6/30/2023)

DRAFT

Completed by: US EPA Region 6

1201 Elm Street, Suite 500

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Contents

- I. EXECUTIVE SUMMARY.....Pg 3**
- II. PURPOSE AND SCOPE.....Pg 4**
- III. GRANT COMPLIANCE AND OTHER REVIEW REQUIREMENTS.....Pg 6**
- IV. PROGRAMMATIC/TECHNICAL REVIEW.....Pg 6**
 - **Project File Review.....Pg 6**
 - **Short and Long Term Program Accomplishments.....Pg 7**
 - **Program Management and Staffing.....Pg 9**
 - **Set-Aside Programs.....Pg 9**
 - **Public Health Benefits Summary.....Pg 10**
 - **Marketing.....Pg 11**
 - **Additional Subsidy.....Pg 11**
 - **Disadvantaged Community Subsidy.....Pg 12**
 - **Federal Funding Accountability and Transparency (FFATA) Reporting.....Pg 12**
 - **Green Project Reserve (GPR).....Pg 13**
 - **Operating Agreement (OA).....Pg 13**
 - **Aquarius Award.....Pg 13**
- V. FINANCIAL REVIEW.....Pg 13**
 - **Transaction Testing.....Pg 13**
 - **Audit of the Fund.....Pg 14**
 - **State Match.....Pg 14**
 - **Unliquidated Obligations (ULOs).....Pg 14**
 - **Administrative Fees and Interest Earnings.....Pg 15**
 - **Financial Health of the Fund.....Pg 15**
 - **Financial Indicators.....Pg 16**
- VI. PREVIOUS YEARS’ RECOMMENDATIONS.....Pg 19**
- VII. CURRENT YEAR ACTION ITEMS AND RECOMMENDATIONS.....Pg 19**
- VIII. STATEMENT OF COMPLIANCE WITH SRF ANNUAL REVIEW GUIDANCE.....Pg 20**

List of Table/Figures

I.	Table 1 Summary ODEQ DWSRF Capitalization Grant Awarded	Pg 4
II.	Table 2 Summary of Subsidization for ODEQ’s DWSRF Program.....	Pg 4
III.	Table 3 Summary of Binding Commitments for ODEQ’s DWSRF Program	Pg 4
IV.	Table 4 Summary of PACE and Years to Disburse Financial Indicators	Pg 4
V.	Table 5 Projects Reviewed	Pg 6
VI.	Table 6 Administrative (4%)	Pg 10
VII.	Table 7 Small Systems Technical Assistance (SSTA) (2%)	Pg 10
VIII.	Table 8 State Program Management (SPM) (10%)	Pg 10
IX.	Table 9 Local Assistance (15%)	Pg 10
X.	Table 10 Additional Subsidy	Pg 11
XI.	Table 11 Disadvantaged Community Subsidy	Pg 12
XII.	Table 12 FFATA Reporting Project	Pg 12
XIII.	Table 13 Federal Draws	Pg 14
XIV.	Table 14 Unliquidated Obligations (ULOs)	Pg 14
XV.	Table 15 Open Grants	Pg 15

I. EXECUTIVE SUMMARY

The Oklahoma Drinking Water State Revolving Fund (Oklahoma DWSRF) program review summarizes the State Fiscal Year (SFY) 2023 (July 1, 2022 – June 30, 2023) and any significant programmatic and financial information. The Oklahoma DWSRF is cooperatively administered by the Oklahoma Department of Environmental Quality (ODEQ) and the Oklahoma Water Resource 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) 2022 Capitalization Grant (cap grant) was awarded on September 30, 2022, providing the program with \$9,935,000 in drinking water assistance. This required a 20% state match of \$1,987,000 that, when added to the cap grant, totaled \$11,922,000. The ODEQ allowed for 14% (\$1,390,900) 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 of 12% subsidy requirement for Disadvantaged Systems in the amount of \$1,192,200.

The EPA FFY 2022 Bipartisan Infrastructure Law Supplemental grant (BIL Supplemental cap grant) was awarded on September 14, 2022, providing the program with \$25,508,000 in drinking water assistance. This required a 10% state match of \$2,550,800 that, when added to the cap grant, totaled \$28,058,800. The ODEQ allowed for 49% (\$12,498,920) of the federal funds to be made available from the BIL Supplemental cap grant for additional subsidization to eligible recipients in the form of principal forgiveness to Disadvantaged Communities.

The EPA FFY 2022 BIL Lead Service Line Replacement grant (BIL LSLR) was awarded on September 14, 2022, providing the program with \$40,192,000 in drinking water assistance. The grant did not require a match. The ODEQ allowed for 49% (\$19,694,080) of the federal funds to be made available from the BIL LSLR cap grant for additional subsidization to eligible recipients in the form of principal forgiveness to Disadvantaged Communities.

The EPA FFY 2022 BIL Emerging Contaminants grant (BIL EC) was awarded on September 14, 2022, providing the program with \$5,733,624 in drinking water assistance. ODEQ was not able to apply for the full amount of \$10,711,000, due to lack of projects available to fund. This grant did not require a match. The ODEQ agreed to use 100% of the funds, net of set-asides taken, to provide additional subsidy for the primary purpose of addressing emerging contaminants in drinking water. At least 25% of this subsidy was provided to Disadvantaged Communities or to systems serving fewer than 25,000 persons.

All of the twenty-one (21) loans closed in SFY 2023 were to Disadvantaged Communities. The total amount of these agreements was \$82,387,224.55.

Table 1. Summary ODEQ DWSRF Capitalization Grants Awarded.

SFY 2023 Grants	Amount	Award Date
Base DWSRF Grant	\$9,935,000	September 30, 2022
BIL DWSRF Supplemental Grant	\$25,508,000	September 14, 2022
BIL Lead Service Line Replacement Grant	\$40,192,000	September 14, 2022
BIL Emerging Contaminant Grant	\$5,733,624	September 14, 2022
Four Grant Total	\$81,368,624	

Table 2. Summary of Subsidization for ODEQ's DWSRF Program.

SFY 2023 Grants	Amount	Award Date
Base Additional Subsidization	\$1,390,900	September 30, 2022
BIL General Supplemental Additional Subsidization	\$12,498,920	September 14, 2022
BIL LSLR Additional Subsidization	\$19,694,000	September 14, 2022
BIL EC Additional Subsidization	\$4,800,000	September 14, 2022
Four Grant Total	\$38,383,820	

Table 3. Summary of binding commitments for ODEQ's DWSRF Program.

Base, GS, LSLR and EC	SFY 2023	Cumulative as of 6/30/2023*
Number of Agreements	21 (19 Base, 2 LSLR)	Line 123 of NIMS Report not available.
Dollar Amount	\$82,387,244	Line 121 of NIMS Report not available.
Amount in Excess of Required Commitments	\$1,018,620	Information not available in NIMS Report.

*NIMS Report (2023 National Information Management Systems Report)

Table 4: Summary of PACE and Years to Disburse Financial indicators

Financial indicators	
Years to Disburse Undisbursed funds to Average disbursement Rate	3.7 years
PACE Assistance Provided as a Percentage of Funds Available	97.2%

II. PURPOSE AND SCOPE

The purpose of this Program Evaluation Report (PER) is to present findings, conclusions, and recommendations based on the SFY 2023 operation of the DWSRF Program, and document if the State has complied with the requirements of Section 1452 of the Safe Drinking Water Act (SDWA), and 40 CFR 35.3570 (c).

Section 1452 of the SDWA and 40 CFR 35.3570(c) requires 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 both the SFY 2023 Intended Use Plan (IUP) and the Annual Report,
- Evaluate the State's compliance with regulations, operating agreement, and open grant agreements,
- 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 for prior year PER findings, and
- Examine and follow up on any open audit findings and recommendations.

The OK DWSRF programmatic/financial review was conducted on-site on February 7 and 8, 2024. EPA also conducted virtual interviews with the ODEQ staff as part of the Annual Review. The following ODEQ and EPA staff participated in the review:

ODEQ: Cadence Belsky, Lisa Cox, Michelle Estrada, Siobhan Gibbons, Connie Guinn, Justin Hodge, Kamren Lambdin, Trey Peterson, Kelly Pham, Vicki Reed, George Russell, Kristi Roy, Tiffany Schwimmer, Carmen Silva, Leslie Smith, Lisa Stewart, Candy Thompson,

EPA: Jose Alvarez, Javier Balli, Brian Boyd, Theophilus Nimpson and Anna Pina

III. GRANT COMPLIANCE AND OTHER REVIEW REQUIREMENTS

Upon review, it was determined that the State of Oklahoma has met the compliance requirement as stated in the regulations 40 CFR Part 35; operating agreement; and all compliance requirements for all the open grants FS-986814, 4D-02F203, 4L-02F211, 4E-02F204 and has also satisfied the required elements of the SFY 2023 Annual Review subject to EPA recommendations. The ODEQ has satisfied all the required elements of the SFY 2023 Annual Review.

IV. PROGRAMMATIC/TECHNICAL REVIEW

a. Project File Review

The EPA reviewed the ODEQ's files for the following projects:

Assistance Recipient	EPA Tracking Number	Date Loan Closed	Rate + Fee Rate	Loan Amount
Altus Municipal Authority (III)	DW-OK-1333623	04/07/2023	Interest Rate 2.66%, Fee Rate 0.5%.	Subsidy \$2,500,000 Loan \$5,100,000 Total \$7,600,000
Creek County Rural Water District #2	DW-OK-1335732	06/09/2023	Interest Rate 2.85%, Fee Rate 0.5%.	Subsidy \$1,000,000 Loan \$12,140,000 Total \$13,140,000
Lawton Water Authority (V)	DW-OK-1333145	03/08/2023	Interest Rate 2.74%, Fee Rate 0.5%.	Subsidy \$1,000,000 Loan \$27,000,000 Total \$28,000,000
Oklahoma City Water Utilities Trust (XI)	DW-OK-1334307	04/25/2023	Interest Rate 2.03%, Fee Rate 0.5%.	Subsidy \$734,250 Loan \$1,490,750 Total \$2,225,000
Waynoka Utilities Authority (III)	DW-OK-1333463	03/30/2023	Interest Rate 0.0%, Fee Rate 0.0%.	Subsidy \$992,200 Loan \$ 000 Total \$992,200

Altus Municipal Authority (III) was ODEQ's third project with this municipal authority and their first Lead Service Line Replacement project. The effort involved lead service line inventory work including data entry and Geographic Information System locating to ODEQ's spreadsheet, verification by hydrovacuuming, lead pigtail and line replacement if needed.

Creek County Rural Water District #2 was ODEQ's first project with this water district, aimed to provide it a new elevated storage tank and associated distribution lines. The 750,000 gallon elevated storage tank, along with a new booster pump station, transmission distribution lines and leak detection flow meters was aimed to increase much needed water pressure for the customers.

Lawton Water Authority (V) was ODEQ's fifth of six assistance agreements with this water authority. This large infrastructure improvement project included the construction of close to 24,000 linear feet of potable 12-inch, 30-inch and 36-inch water lines throughout the system.

Oklahoma City Water Utilities Trust (XI) was ODEQ's eleventh assistance agreement with the OCWUT. This Lead Service Line Inventory verification project primarily involved hydrovacuuming for identifying the location and status for any lead service lines.

Waynoka Utilities Authority (III) was ODEQ's third assistance agreement with this very small (population 993) community water system. The fully subsidized project comprised of replacing water lines throughout the distribution system to maintain compliance.

Project files were all well-organized. What few questions EPA staff had regarding the various forms or need for additional explanation were answered by ODEQ Project Engineers Leslie Smith and Justin Hodges during the on-site review or upon the reviewer's return to Dallas.

b. Short and Long Term Program Accomplishments

Short-term Goals for SFY 2023

1. ODEQ provided forty-six (46) loans to the forty-five (45) water systems listed on the Fundable Portion of the SFY 2023 Project Priority List (PPL). (Target Completion: June 2023)
Result: The ODEQ closed twenty-one (21) loans to systems on the SFY 2023 Project Priority List.
2. Apply for FFY 2023 capitalization grants. (Target Completion: April 2023)
Result: ODEQ applied for the 2023 capitalization grants on May 26, 2023.
3. Complete set-aside work plans specifying funds from the 2022 capitalization grants. (Target Completion: Within 90 days of grant award)
Result: ODEQ submitted set-aside work plans for the 2022 capitalization grants on December 5, 2022, and the deadline was December 20, 2022.
4. Use set-aside funds to implement Capacity Development Strategy. (Target Completion: June 2023)
Result: Based on the information provided in completed source water assessments, ODEQ has partnered with the OK Rural Water Association (ORWA) to develop source water protection plans for small public water supplies. This project is funded via DWSRF set-asides and began work in SFY 2021. During SFY 2023, one (1) source water protection plan was completed by ORWA.
5. Use set-aside funds to provide technical assistance to systems to comply with Long Term 2 Enhanced Surface Water Treatment Rule, Stage 2 Disinfection Byproducts (DBP) Rule, Revised Total Coliform Rule, Lead and Copper Rule, and Ground Water Rule. Target Completion: June 2023)
Result: ODEQ met this goal, as noted in pages 19, 20 and 24 of Annual Report.

6. Issue DWSRF Revenue Bonds in an estimated amount of \$145,000,000 to finance the additional demand for drinking water loan funds. (Target Completion: June 2023)
Result: OWRB issued DWSRF Revenue Bonds in the amount of \$175,000,000 during SFY23.

7. Expend Capitalization Grant within two years of grant award.
Result: The FFY 2020, 2021, and 2022 Capitalization Grants will be expended by June 30, 2024.

8. Promote and market the DWSRF program by giving presentations around the State. (Target Completion: June 2023)
Result: ODEQ presented, or assisted at a booth, at thirteen (13) general conferences and eleven (11) Lead Service Line Inventory training events during SFY 2023. ODEQ presented/attended twenty (20) conferences during SFY 2023.

Long-term Goals

1. Maintain the fiscal integrity of the DWSRF and assure a continuous enhancement of the loan fund for future generations.
Result: ODEQ and OWRB work together to assure the long-term financial health of the loan fund through contracts and an annual audit. See Attachments 4 & 5 of Annual Report.

2. Maintain the fund in perpetuity. Perpetuity consists of maintaining the principal amounts of the state matching funds and capitalization grants, less set-asides, within the DWSRF program.
Result: The perpetuity of the program can be found in Attachments 3 and 5 of Annual Report.

3. Assist the State in meeting the total drinking water funding needs by blending DWSRF capitalization grant and state match funds with leveraged DWSRF bond proceeds to provide long-term low interest drinking water financing.
Result: OWRB and ODEQ leverage the program when needed for funding projects. See Attachment 5 of Annual Report

4. Obtain maximum capitalization of the fund for the State while generating sufficient investment and loan interest earnings to retire revenue bonds.
Result: OWRB and ODEQ decide on the loan terms and conditions for each borrower to optimize the fund. See Attachment 1 of Annual Report.

5. Use set-aside funds along with DWSRF loans to maximize compliance and public health protection.
Result: ODEQ uses set-aside funds to ensure public health protection. OWRB and ODEQ make loans to systems which need to come back into compliance or remain in compliance. See Attachments 1 and 2 of Annual Report.

6. Promote technical, managerial, and financial capability of all public water supply systems.

Result: OWRB and ODEQ conducts financial analysis and overview of the ability of every borrower to run the system.

7. 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.

Result: OWRB and ODEQ may offer subsidization in the form of principal forgiveness as encouragement to systems to consolidate or regionalize. See Attachment 1 and pages 3-9 of the annual report, under project descriptions.

8. Target public water supply projects with health-based violations to reduce the non-compliance rate.

Result: During SFY 2023, OWRB and ODEQ continued its effort to target public water systems with health-based violations (HBV), primarily DBPs. During this period, 2 out of 21 projects funded were systems with HBV. These systems received principal forgiveness (PF), both were funded at 100% PF.

9. Target the additional funds made available through the BIL to disadvantaged communities in accordance with EPA’s memo of Implementation of DWSRF provisions from the BIL.

Result: The ODEQ Water Quality Division created a new section entitled Capacity Development. It currently consists of a Program Manager and five (5) FTE positions. See pages 21, 22, 39, and 40 of Annual Report.

All the long-term goals were achieved in SFY 2023 as discussed throughout the Annual report.

c. Program Management and Staffing

During SFY 2023, nineteen (19) ODEQ staff members were utilized, either directly or indirectly, for the overall administration of the program. This equates to approximately 15.25 full-time employees. OWRB staff members totaled twenty (20) who either directly or indirectly help administer the program. This equates to approximately 3.5 full-time employees. Also, ODEQ contracts with various vendors to provide technical, managerial, and financial assistance. The Public Water Supply Supervision (PWSS) program is also fully staffed at present. To obtain additional positions, a request must be made to the State Legislature and Governor for approval. As workload increases due to BIL projects and LSLI/LSLR and EC activities, current staffing levels may not be sufficient.

d. Set-Aside Programs

Section 1452 of the SDWA authorizes four set-asides to enable states to implement the requirements of the SDWA. They are:

- The Administrative Set-Aside (4%),
- The Small System Technical Assistance (SSTA) Set Aside (2%),

- The State Program Management Set Aside also known as the Public Water Supply State Program (PWSS) (10%), and
- The Local Assistance Set Aside (15%)

ODEQ reserved \$3,079,850 (31%) from the FFY 2022 Base cap grant of \$9,935,000 and reserved \$1,429,477 (5.6%) from the FFY 2022 BIL Supplemental cap grant of \$25,508,000 for their set-asides to use in SFY 2023. The Administrative Set-Aside and the three-state drinking water program set-asides remain with ODEQ. Below is a detailed explanation of each of the following set-asides for each cap grant:

Administrative Set-aside (4%)

Table 6	Amount	Description of its uses
BASE	\$397,400	Staff salaries, travel and training, DWSRF audit costs, loan portfolio management, debt issuance, technical tasks, including the review of planning and design documents, construction documents, and project inspection.
BIL SUPPLEMENTAL	\$409,689	Same as above.
Total:	\$807,089	

Small Systems Technical Assistance (SSTA) (2%)

Table 7	Amount	Description of its uses
BASE	\$198,700	Assistance to small water supply systems in preparation and application for DWSRF loan projects and to systems in need of improved operational controls.
BIL SUPPLEMENTAL	\$192,909	Same as above.
Total:	\$391,609	

State Program Management (SPM) (10%)

Table 8	Amount	Description of its uses
BASE	\$993,500	Lab capacity and development (salaries, equipment, etc), workshops and info exchanges associated with Land and Copper Rule Revisions, perfluoroalkyl substances (PFAS), and other emerging contaminants, technical assistance and other enforcement activities of the PWSS Program, as well as conducting Sanitary Surveys.
BIL SUPPLEMENTAL	\$368,233	Same as above.
Total:	\$1,361,733	

Local Assistance Set-aside (15%)

Table 9	Amount	Description of its uses
BASE	\$1,490,250	Water Loss Program Activities, Capacity Development Assessments, Pilot Public Water

		Supply Small System Technical Sampling Assistance, Rate Analysis Activities, etc.
BIL SUPPLEMENTAL	\$ 458,646	Same as above.
Total:	\$1,948,896	

e. Public Health Benefits Summary

The primary focus of the DWSRF program is to achieve public health protection and compliance. All mandatory and voluntary program elements, (i.e., technical assistance, capacity development, source protection, rule implementation, enforcement, etc.) are coordinated to meet this goal. In SFY 2023, the program closed loans on two projects for communities that were in desperate need of assistance to address health-based violations, and both received 100% principal forgiveness. A \$612,997 loan to the Loyal Public Works Authority assisted a community of 81 people for an ion exchange treatment unit to remove undesirable ionic contaminants from the water by exchanging them with another ionic substance. A \$1.5 million loan to the Temple Utilities Authority assisted a community of 1,146 people with water treatment plant upgrades.

f. Marketing

As part of the on-going efforts to help market the DWSRF program, ODEQ has conducted or participated in activities towards marketing, outreach, and technical assistance.

A few of those activities for SFY 2023 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 with 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 ready for construction.
- 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 thirteen (13) general conferences, eleven (11) LSLI training events and presented at twenty (20) conferences.

g. Additional Subsidy

Federal Fiscal Year	Grant Number	Capitalization Grant Amount	Additional Subsidization Required	Additional Subsidization Awarded	Remaining Subsidy to Award
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FFY 2022	4L-02F211-01	\$40,192,000	\$19,694,080	\$3,234,250	\$16,459,830
FFY 2022	4D-02F203-01	\$25,508,000	\$12,498,920	\$12,498,920	\$0
FFY 2022	4E-02F204-01	\$5,733,624	\$4,800,000	\$0	\$4,800,000
FFY 2022	FS-98681422	\$9,935,000	\$1,390,900	\$964,077	\$426,823
FFY 2021	FS-98681421	\$15,596,000	\$2,183,440	\$2,183,440	\$0
FFY 2020	FS-98681420	\$15,610,000	\$2,185,400	\$2,185,400	\$0

h. Disadvantaged Community Subsidy

Federal Fiscal Year	Grant Number	Cap Grant Amount	SDWA Disadvantaged Community Subsidization (Required 12% Min.)	SDWA Disadvantaged Community Subsidization (35% Max. Optional)	SDWA Disadvantaged Community Subsidization Awarded
2022	FS-98681422	\$9,935,000	\$1,192,200	\$3,477,250	\$1,192,200
2021	FS-98681421	\$15,596,000	\$935,760	\$5,458,600	\$935,760
2020	FS-98681420	\$15,610,000	\$936,600	\$5,463,500	\$936,600

i. Federal Funding Accountability and Transparency (FFATA) Reporting

Public Law 109-282, the Federal Funding Accountability and Transparency Act of 2006 as amended (FFATA), requires disclosure of all entities and organizations receiving federal funds such as:

1. The name of the entity receiving the award
2. The amount of the award
3. Information on the award including transaction type, funding agency, etc.
4. The location of the entity receiving the award
5. A unique identifier of the entity receiving the award; and
6. Names and compensation of highly compensated officers (as applicable)

Table 12: FFATA Reporting Project				
City	Project # / Loan #	Date Loan Closed	Rate + Fee Rate	Loan Amount
Base Grant: Creek Co. RWD #2	DW-OK-1335732	06/09/2023	Interest Rate 2.85%, Fee Rate 0.5%	\$6,855,150
BIL GS Grant: Lawton WA (V)	DW-OK-1333145	03/08/2023	Interest Rate 2.74%, Fee Rate 0.5%	\$24,078,530
BIL LSLR: Altus MA (III)	DW-OK-1333623	04/07/2023	Interest Rate 2.66%, Fee Rate 0.5%	\$7,600,000
BIL LSLR: OKC WUT (XI)	DW-OK-1334307	04/25/2023	Interest Rate 2.03%, Fee Rate 0.5%	\$2,225,000

j. Green Project Reserve (GPR)

The FFY 2022 cap grant encouraged 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 2023 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 ORWA.

k. Operating Agreement (OA)

ODEQ submitted a revised operating agreement to Region 6 in SFY 2019. EPA Region 6 approved the revised operating agreement on March 3, 2020. Yet, the Interagency Agreement between the Oklahoma Water Resources Board and the ODEQ is revised yearly. This agreement includes specific details including what portion of the 4% Administration set-aside each agency will receive for that SFY.

l. Aquarius Award

For their SFY 2023 Aquarius Award nomination, ODEQ proposed the Jet Utility Authority (JUA) Chemical Feed Building and Storage Tank project and received an Honorable Mention. The JUA had received multiple Action Level Exceedances for lead and copper since 2009. This project was necessary to address the lead and copper exceedances and bring the JUA into compliance with their Consent Order No. 20-014. The sodium hypochlorite was for disinfection of the water while the sodium hydroxide and orthophosphate are to reduce the corrosiveness of the water for the JUA. This project benefitted a very small and severely disadvantaged community of approximately 197 people of which 56 were children under the age of 15.

V. FINANCIAL REVIEW

a. Transaction Testing

The EPA's Annual Review guidance document and the Standard Operating Procedures for the State Revolving Fund Programs provides that transactional testing be reviewed by Northbridge staff. The EPA Office of the Chief Financial Officer provided the universe of draws for the selected year and provided guidance on the statistical sampling methodology. The EPA Regions shared the selected draws with the states and gave the states at least three weeks to provide the regions the relevant information.

In accordance with the EPA's Oversight Plan, Table 12 shows the seven cash draws reviewed for the DWSRF program.

	Grant #	Date	Federal Draw	Type of Draw
1.	4D02F20301	04/17/2023	\$98,800.00	Loan
2.	FS98681422	02/10/2023	\$5,168,467.64	Loan
3.	4D02F20301	02/23/2023	\$1,826,846.05	Loan
4.	4D02F20301	03/14/2023	\$1,464,871.73	Loan
5.	FS98681421	02/10/2023	\$1,704,255.71	Loan
6.	4E02F20401	07/21/2023	\$447.61	Set aside
7.	4L02F21101	07/21/2023	\$6,658.74	Set aside

All invoices were found to be properly made for eligible DWSRF expenditures and were appropriately recorded in the ODEQ's accounting records. There were no improper payments found for these transactions.

b. Audit of the Fund

On September 15, 2023, Arledge & Associates, P.C., Certified Public Accountants, audited the OK DWSRF program's financial statements for the years ended June 30, 2023, and 2022. The audits were conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The audit did not identify any deficiencies in internal control that would be material weaknesses. There were also no findings of significant deficiencies identified.

c. State Match

The DWSRF requires state matching funds equivalent to 20% of each capitalization grant and equivalent of 10% for the BIL Supplemental cap grant. The state matching funds for the FFY 2022 base capitalization grant, in the amount of \$1,987,000, were provided through the Series 2021 DWSRF Bond Issue. The 2022 BIL General Supplemental (GS) Grant matching

funds, in the amount of \$2,550,800, were partially funded through the 2021 DWSRF Bond Issue in the amount of \$1,213,000 and through a transfer from the DWSRF Administrative Fund held outside the DWSRF in the amount of \$1,337,800, with the option to refund the DWSRF Administrative Fund with bond proceeds.

d. Unliquidated Obligations (ULOs)

Table 14

All Funds (Project & SA)			Project Funds Only			Set Aside Funds Only			Seven Years Grants		
Federal Cap Grants Awarded	Project & SA ULOs	ULOs as a % of Federal Cap Grants	Project Funds Awarded	Project Fund ULOs	ULOs as a % of Project Funds Awarded	SA Awarded	SA ULOs	ULOs as a % of SA Awarded	Federal Open Cap Grants Awarded	Project & SA ULOs	ULOs as a % of Open Federal Cap Grants
363,401,000	2,724,214	0.7%	289,438,983	53,679	0.0%	73,962,017	2,670,535	3.6%	75,812,000	2,724,214	3.6%

*As of March 1, 2024

Table 15: Open Grants		
Federal Fiscal Year	Grant Number	Capitalization Grant Amount
FFY 2023	FS98681423	\$7,177,000
FFY 2022	FS98681422	\$9,935,000
FFY 2021	FS98681421	\$15,596,000
FFY 2020	FS98681420	\$15,610,000

ODEQ has historically maintained only two open grants. However, due to issues including the purchasing of lab equipment, etc. being supported by the set-asides, the oldest of the grants had to remain open until set-aside balances were resolved. Now that issues are being worked out, ODEQ is already working with EPA Region 6 to transfer their remaining set-aside to the loan fund (DA). Upon the programs request, Region 6 initiated two Change Requests for transferring set-asides to the loan fund at the end of May for grants FS-98681420 and 4L-02F21101.

e. Administrative Fees and Interest Earnings

Loan administrative fees are assessed to each participating borrower by the ODEQ at the rate of one-half of one percent per annum of the amount of each borrower's outstanding loan balance. Fees paid by the participating borrowers are remitted directly to ODEQ These fees are deposited into the Drinking Water Loan Administration Fund, an account held outside the program. The balance of the loan administrative fee on June 30, 2023, was \$11,941,920.

e. Financial Health of the Fund

According to the SFY 2023 Audit Report, the program's net position increased by over 20%, from \$9,950,345 in SFY 2022 to \$11,941,920 in SFY 2023. The increase in net position is

primarily attributable to an increase in cash from administrative fees collected and a decrease in payables.

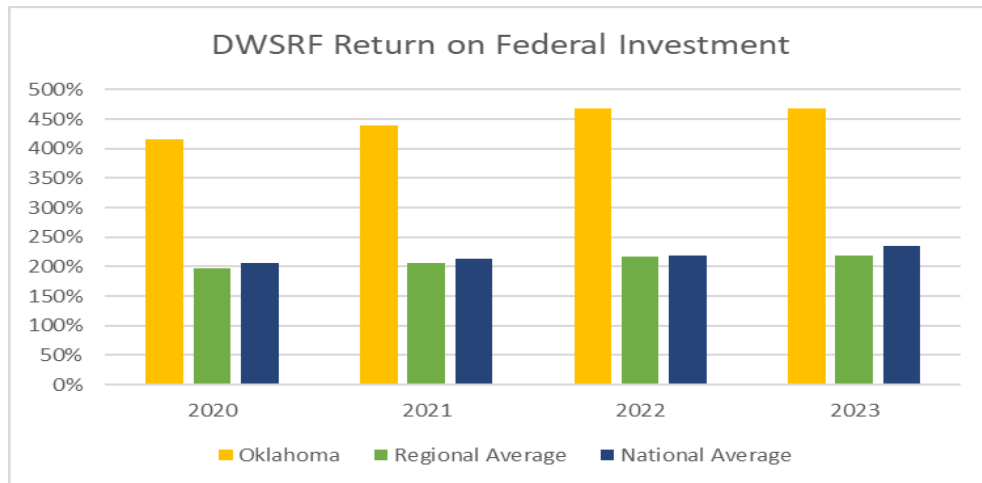
ODEQ has seen an increase in outstanding loans in the amount of \$145,927,894. As of June 30, 2023, ODEQ had 175 outstanding loans with a principal balance of \$808,833,884. In comparison, ODEQ had 160 outstanding loans with a principal balance of \$662,905,990 at the end of SFY 2022. During SFY 2023, ODEQ made binding commitments for 21 new construction loans totaling approximately \$86.5 million. In addition, ODEQ has completed construction on 17 projects totaling \$56.6 million. These financial numbers are indicative of ODEQ's commitment to cultivate and maintain the financial health of the fund. ODEQ completed 21 construction loans, totaling approximately \$82.4 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, 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.

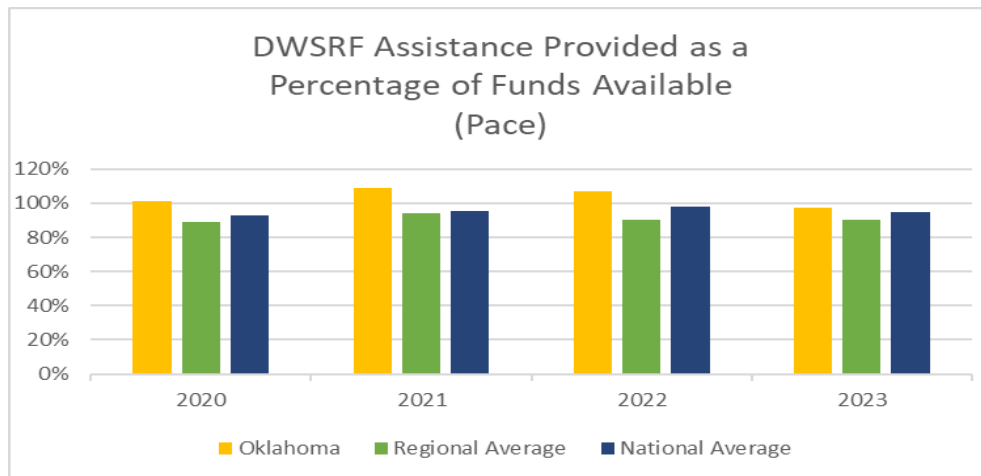
f. Financial Indicators

The SRF Database can report on various indicators and metrics that help tell a story about an SRF's financial performance. However, they do not tell the whole story. EPA and States can gain a deeper understanding of an SRF's performance by delving into additional ratios and metrics using financial statements and other resources. These measures and indicators should be reviewed over time to identify positive or negative trends in performance. The values for the indicators are calculated using the data provided by the State in the SRF Data System. The following financial indicators were reviewed:

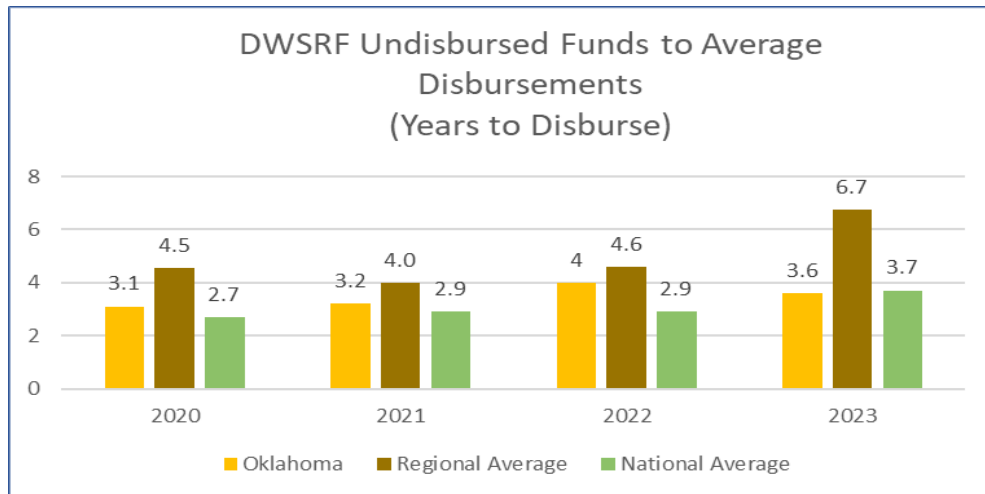
1. **Federal Return on Investment (418)** - indicates how successful the SRF program has been turning capitalization grants into loans that revolve and earn interest. ODEQ achieved a federal return on investment of 469% which continues to be well above the national average of 236%. ODEQ continues to do a great job monitoring the demand for projects.



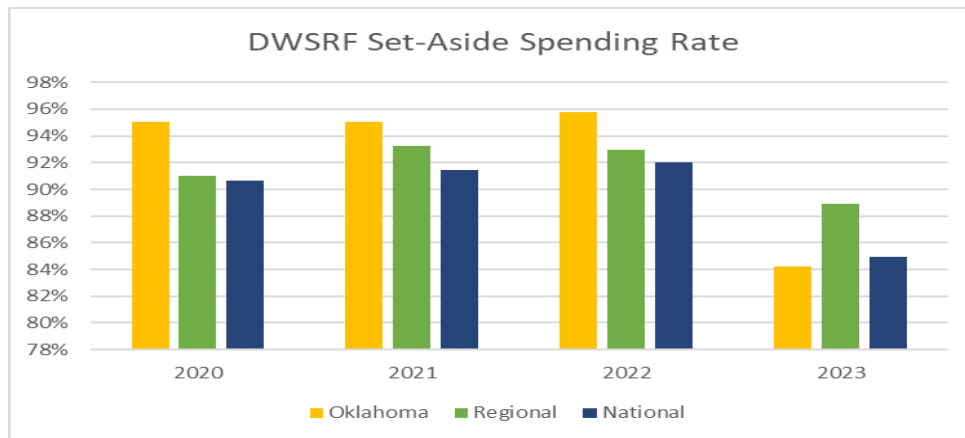
- Executed Loans as a Percent of Funds Available (419)** - is commonly referred to as “pace”; It represents the percentage of money available that has been committed to executed loans. ODEQ’s pace has dropped from 107% to 97%. Although the ratio has dropped, it is still above the national average of 95%. The goal is to be at or above 100%.



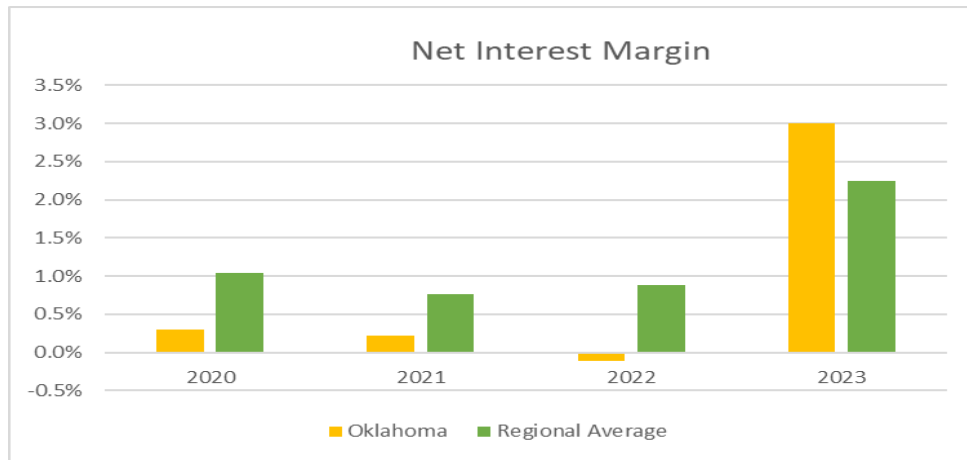
- Ratio of Undisbursed Loan Funds to Disbursements (420.1)** - is a measure that provides some insight on how efficiently SRF funds are revolving by examining a program’s disbursement rate over time and comparing it to cash on hand. ODEQ has a years-to-disburse ratio of 3.6 years just below the national average of 3.7 years. The target rate is two years. The memo requires any state program whose undisbursed fund ratio exceeds 5 years to develop a written plan of action addressing any programmatic deficiencies impacting the rate of disbursement and commitment. The target years to disburse ratio is two years or less.



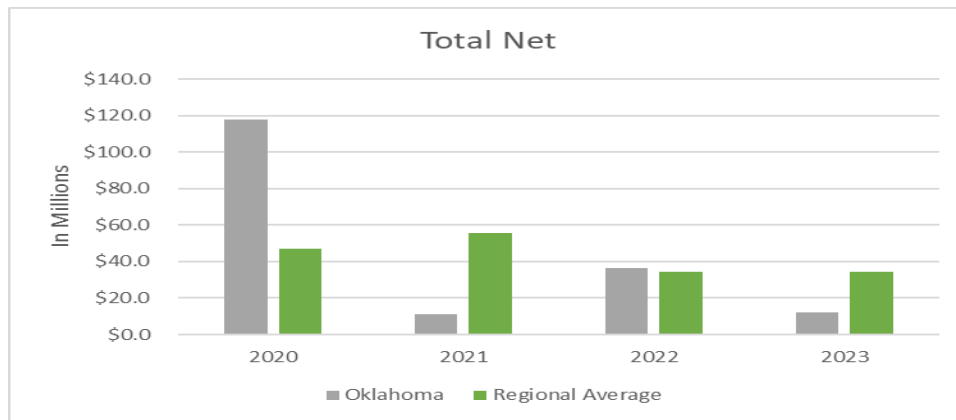
4. **Set-Aside Spending Rate (424)** - is a measure of how efficiently states plan for and draw down awarded set-aside funds. It calculates the cumulative DWSRF set-aside spending as a percent of the cumulative net amount awarded for set-asides. For SFY23, the set-aside spending rate decreased for all of the states in EPA Region 6. ODEQ's set-aside spending rate decreased significantly from 96% to 84%. Although there was a decrease, the ODEQ is one point less than the national average of 85%. The goal is to achieve 100%.



5. **Net Interest Margin** – is used to determine whether the program's revenues are sufficient to cover its expenses. ODEQ's net interest margin of 3% is slightly above the regional average of 2.3%.



6. **Total Net** - Total Net augments the Operating Net by adding the loan principal revolving in the program. It is a measure of perpetuity and internal growth of the program and is also an indicator of the financial growth of the SRF. ODEQ’s total net was \$12M, indicating a continued improvement of internal growth of funds.



7. **Debt to Net Position (Leveraged States Only)** - This measure is an indicator of how much an SRF program is leveraged. A state that has a high percentage of debt to net position is more leveraged, which means that it has more funds available for loans in the near term, but it also has greater liabilities. ODEQ’s debt to net position ratio increased from 1.1% in SFY22 to 1.6% in SFY23.

Oklahoma	2021	2022	2023
Debt to Net Position (Leveraged States Only)	1.2%	1.1%	1.6%

*2023 Office of Water State Revolving Funds Report (SRF Database).

VI. PREVIOUS YEARS’ RECOMMENDATIONS

EPA Recommendation: We encourage ODEQ to continue focusing on improving the “Disbursement as a Percentage of Assistance,” 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.

Status: This indicator remains below the national average of 84.9%. However, it increased significantly from 70.1% to 76.7% from 2022 to 2023. EPA will continue to monitor this indicator and others as we look at the overall health of the program.

VII. CURRENT YEAR ACTION ITEMS AND RECOMMENDATIONS

EPA Recommendation: We encourage ODEQ to continue focusing on improving the “Ratio of Undisbursed Loan Funds to Disbursements”. Currently this indicator is better than the national average at 3.6 years compared to the national average of 3.7 years. As discussed in the *Maximizing Water Quality and Public Health Benefits by Ensuring Expedient and Timely Use of All State Revolving Fund Resources* memo, the EPA will use this indicator as the primary indicator to gauge disbursements. The target of two years will be viewed by the EPA as adequate performance, with programs at or under one year acknowledged for exceptional performance.

EPA Recommendation: The April 14, 2014, memo *Drinking Water State Revolving Fund Unliquidated Reduction Strategy*, encouraged ‘complete draw down of funds from future years’ grants within two years from the date of the grant award.’ All though the program has historically been able to maintain close to two open grants, through various practices including transferring unused set-aside to the loan fund, the program currently has four open grants (FS-986814-20, FS-986814-21, FS-986814-22 and FS-986812-23). We encourage ODEQ to develop a plan to close the oldest grants that could include the transfer of remaining set-aside funds to the loan fund for available projects, maximize the use of set-asides for the State’s drinking water program, and other practices stated in the April 14, 2014, memorandum. Region 6 was pleased that in May the program submitted requests to transfer set-aside funds to the loan fund for grants FS-98681420 and 4L-02F21101.

EPA Recommendation: We commend the program for their project filing system that includes numerous program specific forms and checklists. In particular, the loan and financial information was easy to verify. However, reviewers struggled finding sufficient documentation regarding Davis Bacon Act wage rates. We encourage the program to make sure that every project file can document all of the program requirements.

VIII. STATEMENT OF COMPLIANCE WITH SRF ANNUAL REVIEW GUIDANCE

We have conducted an annual review of Oklahoma's Drinking Water State Revolving Fund Program for SFY 2023 in accordance with EPA's SRF Annual Review Guidance.