



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 10

1200 Sixth Avenue, Suite 900
Seattle, WA 98101-3140

JAN 19 2017

OFFICE OF
WATER AND WATERSHEDS

Mr. Barry Burnell, Director
Water Quality Division
Idaho Department of Environmental Quality
1410 North Hilton
Boise, Idaho 83706

Re: SFY 2016 Program Evaluation Report—Clean Water State Revolving Fund

Dear Mr. Burnell:

The final Program Evaluation Report (PER) for the Idaho Clean Water State Revolving Fund (CWSRF) program is enclosed with this letter. This report covers the time period from July 1, 2015 through June 30, 2016, State Fiscal Year (SFY) 2016.

This PER is based on the SFY 2016 Idaho CWSRF Annual Report, information available from existing data, such as the Clean Water National Information Management System (CWNIMS), the Clean Water Benefits Reporting (CBR) system, audit reports, project file reviews, reviews of cash draw transactions, and from discussions with Idaho CWSRF program staff during the onsite portion of the annual review November 14-16, 2016.

We commend the members of your staff who implement the Idaho CWSRF program for their continued excellent work. Particularly noteworthy is that the pace of the CWSRF loan program has been strong enough to absorb several years' worth of transfers from the DWSRF program. This has helped improve the Idaho DWSRF program's performance on a key indicator, as well as provide additional funds for CWSRF projects. Also, as noted last year, DEQ's Green Project Reserve (GPR) program continues to serve as an excellent example for other state CWSRF programs in the region. In SFY 2016, DEQ designated over \$8 million for GPR, which eclipsed the GPR target of \$681,700. A final item that deserves recognition is your staff's creation of a very useful tool to track the commitment and expenditure of additional subsidy. Because of limitations in the EPA's designated tracking system, DEQ staff created an Access-based tracking tool. This tool allows simple and accurate tracking, by the EPA grant year and by project, of the amount of subsidy that has been committed and ultimately expended.

All of the questions raised during the review process were addressed and are summarized in the PER. As always, we appreciate the assistance of the Idaho CWSRF staff in preparation for the annual review and in promptly addressing any questions that arose. We look forward to continuing to work closely with your office in the future as the program progresses.

If we may provide clarification regarding the PER, please feel free to contact me, or you may contact our interim Idaho CWSRF project officer, Rick Green at (206) 553-8504.

Sincerely,

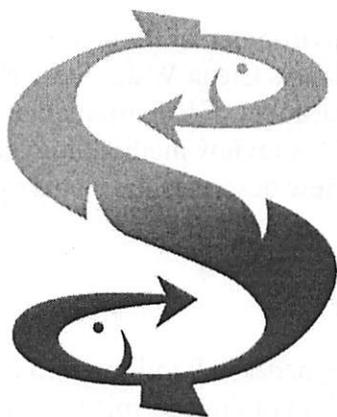


Daniel D. Opalski, Director
Office of Water & Watersheds

Enclosure

cc: Mr. Tim Wendland, Loan Program Manager, DEQ (email only)

REGION 10 EPA



Clean Water
State Revolving Fund

PROGRAM EVALUATION REPORT

IDAHO DEPARTMENT OF ENVIRONMENTAL QUALITY

CLEAN WATER STATE REVOLVING FUND

STATE FISCAL YEAR 2016

JANUARY 2017

EXECUTIVE SUMMARY

This report presents the Environmental Protection Agency's (EPA) State Fiscal Year (SFY) 2016 evaluation of Idaho's Clean Water State Revolving Fund (CWSRF) program administered by the Department of Environmental Quality (DEQ). The introductory section describes EPA's review methodology and information sources. The update on the previous annual review describes the status of required and recommended actions; all actions are complete.

PROGRAMMATIC HIGHLIGHTS

During SFY 2016, DEQ signed \$20.9 million into assistance agreements including approximately \$8.3 million of Green Project Reserve (GPR) eligible project costs, surpassing the minimum GPR requirement of \$681,700, and provided \$1,715,000 in principal forgiveness commitments. Through the end of Idaho's 2016 fiscal year, the program had provided a cumulative amount of \$552 million in CWSRF loans compared to \$567 million funds available, for a fund utilization rate of 97%.

EPA found Idaho's program to be in compliance with all requirements, including successful adoptions and implementation of the new requirements of the 2014 Water Resources Reform and Development Act (WRRDA). The Program Evaluation Report (PER) also reviewed DEQ's highly effective GPR program, which has recorded more than \$50 million worth of GPR activity in CWSRF assistance agreements between SFY 2011 and SFY 2016. DEQ far exceeded their GPR target over that same time period. This remarkable accomplishment was achieved largely by dedicating one staff member to be the GPR coordinator. DEQ's GPR program serves as a model for other state SRF programs.

During the annual review process, EPA also reviewed the following two projects and found them to meet all requirements:

- Coeur d'Alene WW1601 – Wastewater Treatment Improvements
- Franklin WW1501 – Wastewater Reuse

FINANCIAL HIGHLIGHTS

The Idaho CWSRF program continues to perform very well according to financial indicators established for the program nationally. Idaho's percentage of executed loans to funds available is 97%. This shows that DEQ is committing funds faster than the national average of 98% for all CWSRF programs. This performance indicator is important because it documents Idaho's ability to quickly obligate funds it receives into new

projects. It is especially noteworthy given that during SFY 2016 DEQ completed another \$10 million transfer from the DWSRF program to the CWSRF program.

DEQ has taken an active role in monitoring and assisting North Lake's efforts at securing repayments for three delinquent assistance agreements. The loan recipient has made partial payments on all three of the delinquent agreements.

Cash draw transaction testing was conducted on four Federal cash draws taken from EPA grants CS 160001-14 and CS 160001-15 ranging from \$10,900 to \$21,062. All costs appeared eligible for CWSRF funding and no improper payments were found.

All funds were disbursed from federal CWSRF capitalization grants less than a year and a half after award. DEQ's timely disbursement of federal funds prevents unliquidated obligations from being an issue.

INTRODUCTION

The SFY 2016 CWSRF annual review was guided by EPA's Annual Review Guidance of State Revolving Fund Programs, provided by the EPA Office of Water, November 1, 2013. EPA relied upon information from the following sources:

- The Intended Use Plan for the Idaho CWSRF for SFY 2016;
- The SFY 2016 Annual Report submitted by DEQ;
- Records of financial transactions maintained by EPA and DEQ;
- The National Information Management System database updated by DEQ for annual financial data of the CWSRF; and,
- The Clean Water Benefits Reporting database updated by DEQ for project and loan specific data.

The onsite portion of EPA annual review was conducted November 14-16, 2016 as part of a joint CWSRF – DWSRF review at DEQ's office in Boise.

STATE PROGRAM OVERVIEW

The Water Quality Division of the Idaho DEQ manages Idaho's CWSRF, established in state statute as the Wastewater Facility Loan Fund (Fund). The Idaho CWSRF received its first capitalization grant from the EPA in August 1989 and has since program inception operated it as a direct loan program. DEQ technically purchases municipal debt and does not issue loans, although program materials frequently refer to the assistance agreements as loans for the convenience of the assistance recipient.

Cumulatively, DEQ has received approximately \$193.8 million in capitalization grants and provided \$45.6 million in state match. These funds, when combined with principal repayments, interest payments, investment earnings, and unused administrative fees, equate to \$567 million of total funds available for projects through the end of SFY 2016.

Every year DEQ develops an Intended Use Plan (IUP) that documents the total dollars and sources of funds available for the upcoming state fiscal year and shows all projects that have applied for available funding. These projects are shown on the Fundable Listing and the Planning Priority Listing. In addition, DEQ indicates which projects it intends to fund in the coming year based on the priority ranking score of each project and its readiness to proceed with construction.

DEQ offers assistance to projects eligible under Sections 212 and 319 of the Clean Water Act (CWA). Through SFY 2016, DEQ has cumulatively funded \$4.8 million of Section 319 Nonpoint Source assistance. DEQ has greatly expanded the CWSRF program by both the types of projects funded and the breadth of funding options available to borrowers. DEQ facilitates a sponsorship program to coordinate funding for nonpoint source projects with the financial resources of traditional wastewater treatment plants. DEQ also provided borrowers with extended term financing for CWSRF projects for up to 30 years, two years prior to that option being available to all states via passage of WRRDA.

During SFY 2016, DEQ signed three new assistance agreements totaling \$20.9 million. The three projects funded in SFY 2016 were for various wastewater system improvements and collection system replacements, installations, or for reuse. DEQ identified \$8.3 million of GPR eligible project costs in SFY 2016, well surpassing the minimum requirement. In addition, DEQ committed \$1.7 million in principal forgiveness, which was under the 30% cap (\$2 million) for the FFY 2015 capitalization grant.

EPA tracks the percent of assistance provided relative to the total amount of funds available. The target is to obligate as much of the funds into projects as possible. At the end of SFY 2016, approximately \$552 million was being used to fund projects as compared to \$567 million of funds available, for a fund utilization rate of 97%.

Since SFY 2007, the Fund has been assessing a 1% fee. An assistance agreement interest rate is reduced by the percentage of the fee so there is no difference in cost to borrowers. As of SFY 2014, EPA has authorized fee account funds to be used for supplemental support for the administration of the Fund, as well as for planning grants, and wastewater operator training and certification.

PROGRAM REVIEW

This section documents EPA's review of Idaho's implementation of the CWSRF statutory and regulatory requirements. Throughout the course of the year, EPA coordinates with DEQ in reviewing the IUP, CWSRF annual capitalization grant application, annual report, CBR data, and the Operating Agreement (as needed) as part of ongoing program oversight. This section also includes information related to the State Environmental Review Process (SERP), program requirements related to WRRDA, annual appropriation requirements, and highlights DEQ's best practices in managing GPR and American Iron and Steel (AIS) requirements. Based on the reviewed materials and from discussions with staff, we found the program to be in compliance with all requirements.

FEDERAL WATER POLLUTION CONTROL ACT AMENDMENTS/WRRDA

On June 10, 2014, WRRDA was signed into law. Among its provisions were amendments to Titles I, II, V, and VI of the Federal Water Pollution Control Act (FWPCA). Final interpretive guidance was issued by EPA on January 6, 2015 for those provisions affecting the CWSRF program. The WRRDA guidance includes specific changes of requirements and allowances of the CWSRF program. The following are selected elements of the new WRRDA provisions.

PROJECT TYPE ELIGIBILITIES: FWPCA SECTION 603(C)

FWPCA section 603(c) provides the project types eligible for CWSRF assistance. Each of the eleven project types is an independent eligibility with its own criteria and requirements. DEQ is considering the idea of funding septic replacement to protect drinking water. DEQ has also brainstormed with other entities, such as coordinating with stormwater groups and engaging in internal communication with other DEQ departments for permitted communities, and water reuse to explore the demand for other eligibilities now allowed in the CWSRF.

ARCHITECTURAL AND ENGINEERING CONTRACTS: FWPCA SECTION 602(B)(14)

Section 602(b)(14) of FWPCA requires the State to ensure that all architectural and engineering (A/E) contracts for projects identified as using funds "directly made available by" a capitalization grant (i.e. equivalency projects) comply with the elements of the procurement processes for A/E services as identified in 40 U.S.C. 1101 et seq., or an equivalent State requirement. DEQ had indicated during the SFY 2015 onsite review that A/E only applies to FFATA projects. However, subsequently DEQ has decided to meet this requirement by providing an annual AG certification indicating that they have an equivalent state procurement process.

USEFUL LIFE: FWPCA SECTION 603(D)(1)(A)

Loan terms may extend up to 30 years, but must not exceed the useful life of the project (as determined by the State). For a CWSRF project that has multiple components each with a different useful life, the State may use a weighted average of the components in determining the useful life of the project. Furthermore, Appendix III of the WRRDA guidance states that documentation of the useful life of the project should be included as part of the project file.

Based on previous EPA recommendations DEQ now documents compliance with this requirement as part of the plan and spec review.

COST AND EFFECTIVENESS ANALYSIS: FWPCA SECTION 602(B)(13)(A) AND (B)

Assistance recipients must certify that they have conducted the studies and evaluations of a cost and effectiveness analysis to include at a minimum:

- the study and evaluation of the cost and effectiveness of the processes, materials, techniques, and technologies for carrying out the proposed project or activity for which assistance is sought under this title; and
- the selection, to the maximum extent practicable, of a project or activity that maximizes the potential for efficient water use, reuse, recapture, and conservation, and energy conservation.

DEQ included a new Cost and Effectiveness Analysis certification (Form 6-Z) in their CWSRF handbook. The form is reviewed by the DEQ regional engineer as part of the bid award approval process. EPA would like to thank DEQ for implementing this new requirement in a proactive and effective manner.

STATE ENVIRONMENTAL REVIEW PROCESS

Prior to WRRDA, EPA required that all Section 212 projects, equal to the amount of the capitalization grant, undergo environmental review. However, WRRDA now requires that all CWSRF-funded projects involving the construction of “treatment works” must undergo an environmental review, not just equivalency projects. Therefore, any project that is considered a “treatment work” as defined in the FWPCA Section 212, now incorporated in FWPCA Section 502(26), must comply with the FWPCA 511(c)(1) environmental review requirements regardless of which eligibility it is funded under. DEQ may still choose to apply its own “NEPA-like” State environmental review process (SERP) for complying with the FWPCA section 511(c)(1).

DEQ last updated the SERP in 2011 to include a Tier II limited review process. Project file review and discussions with DEQ staff during the SFY 2015 review indicated

the SERP accurately describes the process for projects to date. However, the Tier II process has been utilized only on a few occasions and is no longer allowable due to WRRDA requirements. In addition, DEQ recently underwent a comprehensive kaizen process for the SERP, submitted a draft SERP to EPA in November 2015, and plans to finalize the SERP in late 2016 or early 2017. Both of the reviewed project files contained documentation of compliance with this requirement.

FFY 2015 APPROPRIATION REQUIREMENTS

This section documents the EPA’s review of specific requirements that originate from Congressional appropriation language. Since these typically change annually, a brief description of each requirement is included below.

ADDITIONAL SUBSIDIZATION

The Additional Subsidization Requirement (ASR) for the CWSRF was included in EPA's Federal Fiscal Year (FFY) 2012 appropriation and continued to apply for FFY 2015. Based on the FFY 2015 grant, DEQ was not required to provide a minimum amount of additional subsidization, but had a maximum ceiling of 30% (\$2 million). DEQ reported committed principal forgiveness of \$1.7 million. DEQ committed principal forgiveness to the following projects shown in Table 1.

Table 1: SFY 2016 Projects with Additional Subsidization as Principal Forgiveness

Agreement #	Recipient	Agreement Amount	Principal Forgiveness
WW1602	City of Franklin	\$2,772,700	\$446,095
WW1603	City of Hagerman	\$5,088,905	\$1,268,905
		Total:	\$1,715,000

The FFY 2015 grant included reporting requirements for projects receiving additional subsidy that need to be entered quarterly into CBR and listed in the Annual Report. DEQ has typically completed timely CBR entries and appeared to meet all of the required subsidy information including project affordability of the assistance recipient. DEQ included the required subsidy information in the SFY 2016 Annual Report.

GREEN PROJECT RESERVE

Green Project Reserve (GPR) requirements were authorized for the CWSRF again in EPA's FFY 2012 appropriation and continued for FFY 2015. The GPR requirements

were passed through to DEQ in their capitalization grant. DEQ's responsibilities under GPR are to solicit and fund GPR projects, or components of projects, for not less than 10% of the capitalization grant amount. The four categories of GPR are green infrastructure, energy efficiency, water efficiency, and environmentally innovative projects. DEQ also must identify those projects in the IUP, state whether they are categorically green or will require a business case, review all business cases, and post them on their web site by the end of the quarter in which the assistance agreement is signed.

DEQ's Green Project Reserve 10% target for SFY 2016 was \$681,700. DEQ provided funding for three new projects and estimates the GPR costs for those projects to be approximately \$8.3 million –once again easily exceeding the annual target.

In addition, the FFY 2015 grant included reporting requirements for projects designated as GPR that need to be entered quarterly into CBR and listed in the Annual Report. DEQ completed timely CBR entries including the newly required GPR elements and the SFY 2016 Annual Report included all the required GPR information.

GPR Documentation & Business Cases

GPR documentation for the three SFY 2015 GPR projects is posted on DEQ's GPR website: www.deq.idaho.gov/green-project-reserve. EPA reviewed the documentation for each project and it appeared to be sufficient.

BEST PRACTICE: GREEN PROJECT RESERVE PROGRAM

Idaho's CWSRF program continues to be an excellent example of how effectively DEQ has incorporated the GPR requirements into their CWSRF program and has consistently been one of the top states in the country based on percentage of GPR funded to their EPA capitalization grant each year. As indicated by the \$8.3 million of GPR designated for SFY 2016 compared to the \$6.8 million FFY 2015 cap grant, these efforts continue to be extremely successful. Idaho's GPR model continues to serve as the regional benchmark for GPR and, an example for other SRF programs to emulate by dedicating a GPR coordinator and using the GPR templates available on DEQ's GPR webpage to record GPR eligible components.

EPA greatly appreciates DEQ's continued commitment by both the program manager, Tim Wendland, and the GPR coordinator, Kevin McNeil, to successfully manage and implement the GPR program.

BEST PRACTICE: AMERICAN IRON & STEEL

American Iron & Steel (AIS) requirements were included in P.L. 113-76 Consolidated Appropriations Act, 2014 and were made permanent in the CWSRF

program through the passage of WRRDA. AIS requires CWSRF assistance recipients to use iron and steel products that are produced in the United States for projects for the construction, alteration, maintenance, or repair of a treatment works.

DEQ created a new Form 6-X in their loan handbook for CWSRF recipients to address AIS compliance. Form 6-X is a thorough and detailed packet that includes sections on AIS requirements, required contract language, AIS waivers and process, examples of certifications of compliance, onsite inspections and records retention, and best management practices. EPA Region 10 shared this form with EPA Headquarters as a best practice example for AIS implementation.

SUSTAINABILITY

Sustainable water infrastructure is critical to providing the American public with clean and safe water. Further, water infrastructure can only be sustainable if the communities it serves are sustainable, and if local decision makers and citizens understand the value of water infrastructure and the services provided.

ACCOMPLISHMENTS BY DEQ

Water Quality Project Rating Criteria

DEQ has a Sustainability Efforts section of their project ranking criteria that includes points for various green building, water conservation, and energy-efficiency technologies and efforts.

Green Project Reserve

As a program, the Idaho CWSRF has received \$44.3 million in grant funds from EPA (for SFY 2011 through SFY 2016), and DEQ's GPR target over that term has equated to \$6.1 million (GPR target of 10% to 20% of the capitalization grant each year, depending on EPA's requirements). During this time, DEQ signed \$186 million into loan agreements with over \$50 million in GPR eligible components, or 113% of their EPA grant amount. This 113% GPR rate is a remarkable accomplishment.

FINANCIAL REVIEW AND ANALYSIS

This section documents EPA's review of Idaho's financial management and oversight of the CWSRF and its borrowers. Throughout the course of the year and during the onsite visit, EPA reviews State accounting records, draft and audited financial statements, NIMS, borrowers' invoices and audits (as necessary) to conduct ongoing

financial oversight. This section also includes information on audits of DEQ's CWSRF program, DEQ's ongoing role in securing repayments for three assistance agreements that are currently in default/delinquency, detailed results of EPA's cash draw transaction testing, and national financial indicators of the program's effectiveness.

Based on the reviewed materials and staff interviews, EPA found Idaho's financial management to be in compliance with all requirements. EPA did not find any instances of negative cash draws. All funds were disbursed from federal CWSRF capitalization grants less than a year and a half after award and consistent with the required proportionality requirement.

AUDITS

INDEPENDENT FINANCIAL AUDIT

For the last several years the Idaho State Legislative Services Office (LSO) has provided an annual audit of the financial statements of the CWSRF. Starting with SFY 2016, DEQ worked with LSO to instead have them conduct an Agreed-Upon Procedures (AUP) process. This procedure provides essentially the same work product at considerably less expenses. At the time of the annual review, the LSO had not yet completed the AUP. Therefore, EPA reviewed the results of the SFY 2015 audit.

The audit for SFY 2015 contained no new findings, but closed one finding identified in the SFY 2014 audit. The audit concluded that the CWSRF's financial statements were materially accurate and reliable and fiscal operations materially complied with related laws and regulations. As a result LSO issued an unmodified opinion on the CWSRF's financial statements. An unmodified opinion, also referred to as an unqualified opinion (an opinion free of modifications or qualifications) simply means that the auditor believes that the CWSRF program's financial statements are presented fairly and prepared in accordance with generally accepted accounting principles (GAAP).

SINGLE AUDIT ACT

The Single Audit Act (SAA) and amendments require non-Federal entities that expend \$750,000 or more of Federal funds in a year to have a single audit conducted. Sources of Federal funds include, but are not limited to, SRF programs, health care, social services, infrastructure, highways, and education. At the time of the annual review, the LSO had not yet issued the statewide Single Audit for the State of Idaho covering the fiscal year ending June 30, 2016.

The Idaho SFY 2015 statewide single audit issued March 31, 2016 identified the CWSRF as a major program. There were no findings related to the CWSRF.

LOANS IN DEFAULT OR DELINQUENCY

As has been discussed in previous PERs, DEQ has three CWSRF assistance agreements from 2006 with North Lake Recreational Sewer and Water District (North Lake) that are currently in default/delinquency. In total the outstanding balance as of June 30, 2016 for the three loans is \$17.5 million. This represents 14% of the outstanding balance (\$122 million) for the nine CWSRF loans in excess of \$10 million, or 7% of the total loans receivable (\$229 million).

North Lake has made partial payments on the three loans; the most recent received December 5, 2016, and totaling \$745,995. In addition, DEQ continues to take an active role in monitoring and assisting North Lake's efforts at securing repayments. The majority of properties subject to the North Lake Local Improvement District (LID) assessments have varying ownership interest by Tamarack, their affiliated companies, and individuals. On September 1, 2010, North Lake filed a claim against Tamarack Resort LLC for approximately \$36 million in the Tamarack bankruptcy action. The District Court previously confirmed North Lake's statutory priority above other creditors in the Tamarack Resort foreclosure proceeding.

As a result of this situation, DEQ updated its underwriting policy to decrease the likelihood of future defaults or delinquencies from occurring when a borrower's major employer leaves or declares bankruptcy. DEQ now requires potential borrowers to form an LID before they will approve the assistance application in order to evaluate the users and the potential risk of a large employer or rate payer being removed from the tax base, thus impacting the ability of the remaining residents and tax payers to repay the remaining debt. DEQ's CWSRF staff have done a superb job assisting the North Lake District in attempting to recoup its losses, make payments to DEQ on the outstanding debt, and proactively updating and changing DEQ's credit worthiness analysis and underwriting of potential borrowers to ensure the perpetuity of the Fund for future Idaho borrowers.

CASH DRAW TRANSACTION TESTING

An important part of the annual review process is checking federal capitalization grant cash draw transactions and loan disbursement documentation. In response to the Improper Payments Elimination and Recovery Act, the Office of Management and Budget (OMB), through the EPA Office of the Chief Financial Officer (OCFO), directed that the CWSRF be subject to a random selection of transactions to develop a national estimate of improper payments from this program.

During the SFY 2016 annual review, EPA reviewed four cash draws from the federal capitalization grant and the associated project loan disbursements; two of these draws were selected by EPA Region 10 and two were assigned by OCFO. Upon request,

the DEQ Fiscal Office staff provided complete sets of accounting records and project specific invoices for EPA to evaluate the procedures for federal grant cash draws, state match deposits, and disbursements to borrowers from the Idaho CWSRF.

EPA reviewed the following four CWSRF SFY 2016 cash draws from EPA grants CS 160001-14 and CS 160001-15:

- **June 10, 2016 (CS 160001-15) – Federal Cash Draw \$21,062**
 - \$21,062 for IDEQ administration of the CWSRF
 - Question 1: Please explain the purpose of the \$33.76 payment to Bank of America on June 3, 2016. *DEQ response: The \$33.76 is for parking and a booth for MaryAnna Peavey at the AWWA conference, as well as lodging for Tim Wendland for a board meeting on May 13, 2016.*

- **March 29, 2016 (CS 160001-15) – Federal Cash Draw \$14,802**
 - \$14,802 for IDEQ administration of the CWSRF
 - Question 2: Please explain the purpose of the three paycard transactions on March 14 and March 15, 2016 in the amounts of \$171.70 with the description of “Region 10 CWSRF Conference.”
 - Question 3: Please explain the purpose of the -\$20.90 adjusting entry with the description of “Buddy’s Backhoe Service.” *DEQ response: This was part of a payment we received from Buddy’s Backhoe Service for a public records request.*

- **December 22, 2015 (CS 160001-15) – Federal Cash Draw \$11,430**
 - \$11,430 for IDEQ administration of the CWSRF
 - No questions.

- **September 29, 2015 (CS 160001-14) – Federal Cash Draw \$10,900**
 - \$10,900 for IDEQ administration of the CWSRF
 - No questions.

All costs associated with the above draws appear to be eligible for CWSRF funding. Each cash draw had consistent documentation and accounting records. EPA also found that disbursement documentation and invoices were well organized and supported the amounts and eligibility of costs incurred. No erroneous payments were found from cash draw transaction testing.

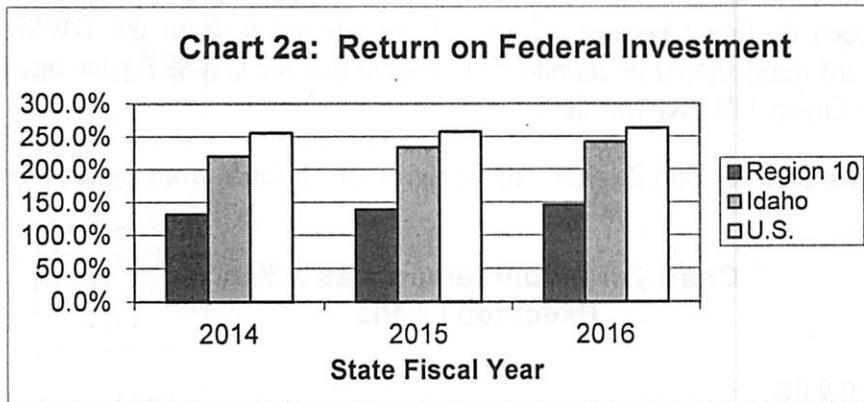
FINANCIAL INDICATORS

The Idaho CWSRF program has performed well according to financial indicators established for the program nationally. The following charts provide a comparative analysis of some of the financial indicators by which state CWSRF programs are evaluated.

Idaho CWSRF Performance on Financial Indicators

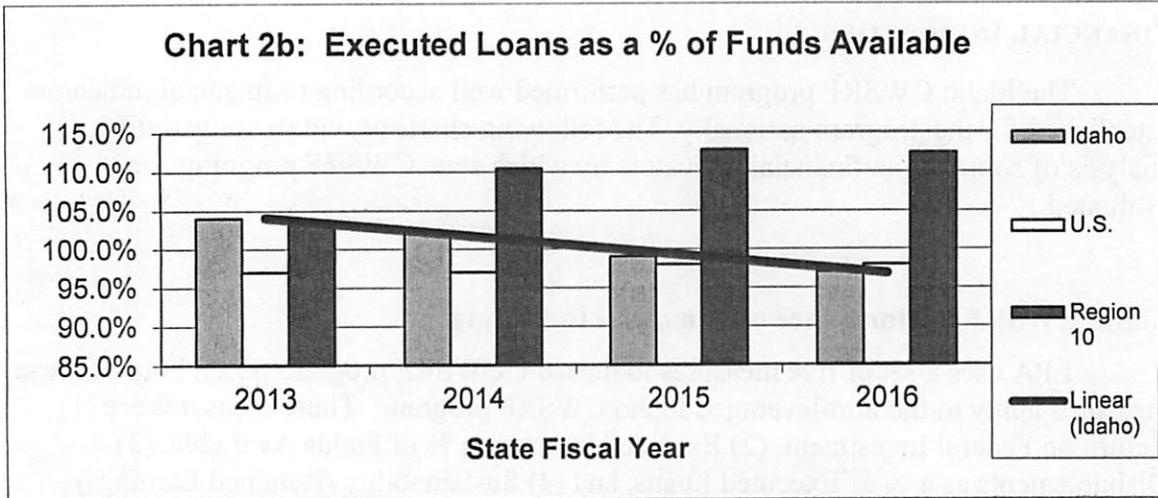
EPA uses a set of five measures to measure CWSRF program pace. Four of these measures apply to the non-leveraged Idaho CWSRF program. These measures are (1) Return on Federal Investment, (2) Executed Loans as a % of Funds Available, (3) Disbursements as a % of Executed Loans, and (4) Sustainability (Retained Earnings) Excludes Subsidy. 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 should



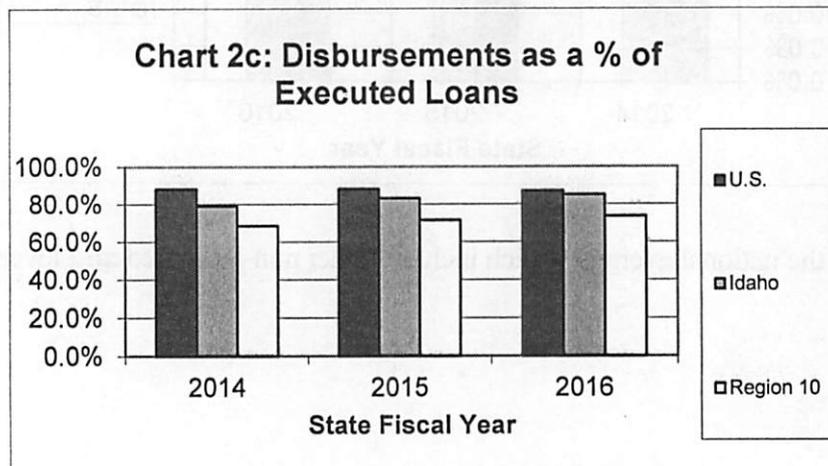
be at least 120%. Through the period Idaho has continued to post a return on Federal investment of at least 100 points more than the baseline. This performance puts the program nearly on par

with the national average, which includes other non-leveraged **and** leveraged states.



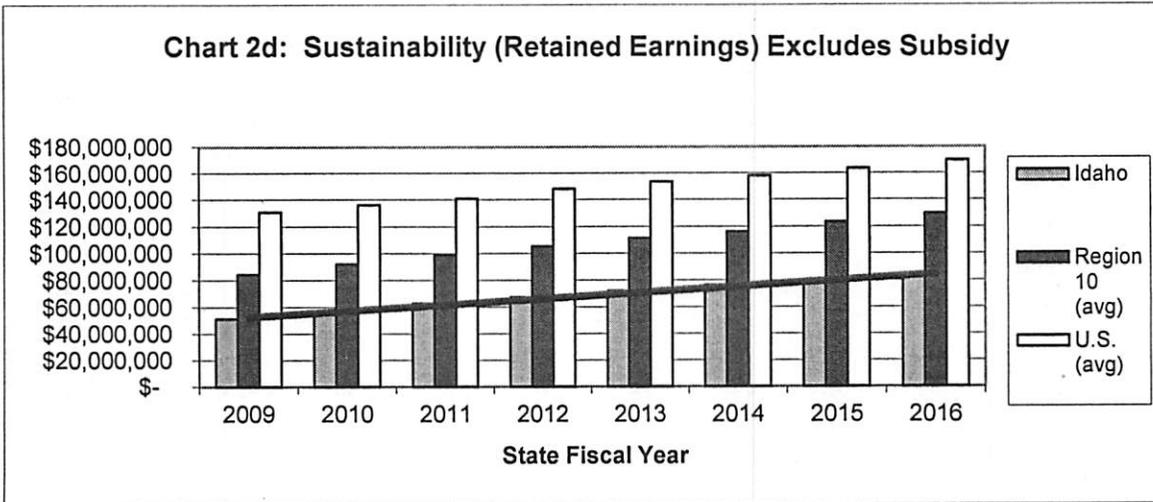
The measure shown in Chart 2b is calculated by dividing the total dollar amount of executed CWSRF loans by the total amount of funds available for loans. It shows how effectively a state is making loans with the money that is available for loans. Depending on the aggressiveness of a state's cash flow 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 declining because of several large transfers from the DWSRF program. This downward trend should be monitored to ensure that the CWSRF pace rate is not unduly impacted by further DWSRF transfers.

The measure illustrated in Chart 2c 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 increased from 79% to 85% over the last three years.



This performance exceeds the Region 10 average and compares well to the national average of 87%.

Chart 2d: Sustainability (Retained Earnings) Excludes Subsidy



Starting in 2009, CWSRF capitalization grants began requiring states to forgive significant amounts of loan principal. Because of this requirement that impacts the revolving nature of the CWSRF, EPA now uses a measure to look at fund growth and perpetuity 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.

CONCLUSION

EPA appreciates all of DEQ’s efforts to run an excellent CWSRF program. DEQ updated their program procedures to meet increasing and evolving requirements, such as WRRDA and AIS, and their effective records management system assists with the efficiency of EPA’s onsite review by allowing materials to be reviewed in advance. Of significant note, DEQ’s excellent GPR program continues to serve as a model for other state SRF programs to emulate. DEQ has also performed exceptionally well in assisting North Lake to address their delinquent assistance agreements and in changing their program accordingly to minimize the risk from a single large rate payer leaving the tax base. DEQ’s CWSRF program continues to exhibit a strong fund utilization rate, despite absorbing several large transfers from the DWSRF. This rate, however, should be monitored in the future to ensure that there continues to be sufficient CWSRF loan demand to utilize the transferred funds.