

**State of Rhode Island
Clean Water State Revolving Fund**

Program Evaluation Report

**SFY 2013
July 1, 2012 – June 30, 2013**

FINAL

June 12, 2014

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I. INTRODUCTION

Title VI of the Clean Water Act (CWA) of 1987 established the Clean Water State Revolving Fund (CWSRF) program as an innovative replacement for the federal Construction Grants program. The CWSRF program is available to fund a wide variety of water quality projects including all types of nonpoint source, watershed protection or restoration, and estuary management projects, as well as more traditional municipal wastewater treatment projects. Section 606(e) of CWA Title VI requires EPA to conduct an Annual Review to assess the State's progress in the implementation of its CWSRF program. The ultimate objective of the Annual Review is to ensure that the State's CWSRF program is designed and operated to provide on-going financial assistance for water pollution control activities.

This document, the Program Evaluation Report (PER), summarizes EPA's Annual Review of the Rhode Island CWSRF program for the period of July 1, 2012 – June 30, 2013 (SFY 2013) and will serve as the basis for actions taken by the State and as a point of future reference for the Region. The Annual Review took place on **February 4-6, 2014** and was conducted in accordance with EPA's Annual Review Guidance, including a pre-onsite document review, onsite discussions with state staff, and completion of nationally standardized programmatic and project file checklists.

II. PRE-ONSITE REVIEW

EPA reviewed the following documents prior to arriving onsite: Operating Agreement, SFY 2013 Annual Report, State Environmental Review Process (SERP), Intend Use Plan, CBR Database Reports, Independent Audit Report, Single Audit Report, NIMS Reports, Bond Documents and COMPASS Reports. This document review provided the information necessary to answer some of the questions in the Annual Review Checklist developed by EPA Headquarters and to complete the sections below.

a. Awards to Date

The State of Rhode Island's Clean Water Finance Agency (Agency) received their FY 2012 CWSRF capitalization grant in the amount of \$9,486,000 during SFY 2013. As of June 30, 2013, EPA has awarded the RICWFA an amount of \$238,368,740 in CWSRF funding since the inception of the CWSRF program. This includes the \$26,314,600 that was awarded to the RI CWFA through the CWSRF program under the American Recovery and Reinvestment Act of 2009 (ARRA).

b. Financial Summary of the Program

The pre-onsite review provided EPA with a snapshot of the program's financial status, allowing EPA to determine compliance with binding commitment and small systems assistance requirements. Key FY 2013 and cumulative information on the program is listed in Table 1, while Table 2 focuses on financial indicators for the program.

Table 1: Summary annual and cumulative statistics for Rhode Island’s CWSRF program

| | SFY 2013 | Cumulative as of June 30, 2013 |
|--|-----------------|---|
| Total EPA Awards to Project Fund | \$9,486,000 | \$238,368,740 |
| Total State Match¹ | \$1,983,000 | \$42,410,842 |
| Repayments (principal and interest)² | \$54,879,922 | \$462,287,898 |
| Interest Earnings on Investments³ | \$3,916,938 | \$171,616,145 |
| Net Leveraged Bond Proceeds⁴ | \$58,766,240 | \$772,438,677 |
| Income from Fees | \$2,923,371.59 | ----- |
| Binding Commitments | | |
| Number of Agreements⁵ | 11 | 340 |
| Dollar Amount⁶ | \$54,436,229 | \$1,446,394,827 |
| Dollar Amount (excluding ARRA) | \$54,436,229 | \$1,420,080,227 |
| Amount in Excess of Required Commitments | \$44,950,229 | \$1,208,027,387 |
| Assistance to Hardship Communities | | |
| Number of Agreements⁷ | 0 | 0 |
| Dollar Amount⁸ | \$0 | \$0 |
| Grant Requirements | | |
| Subsidy Dollar Amount⁹ | \$1,052,555 | \$62,184,337 |
| GPR Dollar Amount¹⁰ | \$991,115 | \$21,271,840 |

c. Financial Indicators for CWSRF Programs

On October 31, 2000, the memorandum (CWSRF 01-3) regarding the implementation of CWSRF Financial Indicators, was issued. Some of these indicators are incorporated into the Government Performance and Results Act (GPRA) annual performance goals for the CWSRF program. These Financial Indicators are tools that help us understand and assess a State’s SRF program within our Region and are calculated using the data that the State provides in the CWSRF National Information Management System report each year.

These financial indicators, which are summarized in Table 2, are tools that allow us to better understand and assess the RI CWSRF program. The indicators are calculated using the Clean Water National Information Management System (NIMS) data submitted by the state annually.

¹ NIMS lines 90 and 91, respectively.
² NIMS lines 236 and 239, respectively.
³ NIMS lines 241 and 242, respectively.
⁴ NIMS lines 209 and 217, respectively.
⁵ NIMS lines 102 and 103, respectively.
⁶ NIMS lines 100 and 101, respectively.
⁷ NIMS lines 132 and 133, respectively.
⁸ NIMS lines 130 and 131, respectively.
⁹ NIMS lines 324 and 325, respectively.
¹⁰ NIMS lines 330 and 331, respectively.

Table 2: SFY 2013 CWSRF Financial Indicators for Rhode Island

| | National Leveraged Average | Regional Leveraged Average | State Value |
|--|----------------------------|----------------------------|-------------|
| Federal Return on Investment | 280 % | 374 % | 391 % |
| Loans as a Percent of Funds Available | 98 % | 116 % | 147 % |
| Disbursements as a Percent of Assistance Provided | 89 % | 79 % | 62 % |
| Estimated Additional Loans Due to Leveraging | N/A | N/A | \$1.12B |
| Sustainability | N/A | N/A | \$ 17M |

It is important to understand that although national and regional target values are presented, the comparison of any one state against these values must be tempered by an understanding of the specific differences in the way in which that state’s program is operated. For example, some states make direct loans and other states leverage their funds through issuances of municipal bonds. Leveraging will drastically affect the Return on the Federal Investment indicator by making it higher in a leveraged state than in a non-leveraged state. Rhode Island is one of three leveraged programs in New England.

The **Federal Return on Investment** indicator shows how many dollars of assistance were disbursed to eligible borrowers for each federal dollar drawn. The national leveraged state value for this indicator in FY2013 is 280% while the respective regional value is 374%. The State of Rhode Island is disbursing funds at a rate of 391% which is a very good rate and above both the national and regional averages. This means that Rhode Island is disbursing approximately \$3.91 of project funds for every \$1.00 of federal funds spent.

The **Loans as a Percent of Funds Available** indicator measures the dollar amount of executed loan agreements to the cumulative dollar amount of funds available for loans. It is one indicator that measures the *Pace of the program* by gauging how quickly funds are made available to finance CWSRF projects. This indicator has a wide range of values and can exceed 100% for those states that have adopted an advanced loan approval approach, which makes use of the lag time between the signing of loan agreements and the disbursement of monies to complete the projects. The national average for leveraged states for this indicator in FY2013 is 98% and the regional average is 116%. Rhode Island is proceeding to convert its CWSRF available funds into executed loans at a rate of 147%, which is slightly lower than last year’s rate but still well above the national and regional rates.

The **Disbursements as a Percent of Executed Loans** indicator measures the *speed* at which projects are proceeding to completion. This indicator shows the relationship between loan disbursements and the total amount of funding provided. This indicator has a wide range of values, but will not exceed 100% as that would indicate disbursing funds in excess of the funds committed. The national leveraged value for this indicator in FY2013 is 89.00% while the regional leveraged value is 79%. Rhode Island is proceeding at a 62% rate, which although it is an increase from last year’s rate of 59.64%, is well below both national and regional values. It is hoped that this increase from last year represents an upward trend in the state’s rate for this indicator.

The **Estimated Additional Loans Due To Leveraging** indicator tries to estimate the dollar amount of additional projects which have been funded, that otherwise might not have been funded, had leveraged bonds not been issued. Rhode Island has leveraged its CWSRF Fund and as a result, has been able to commit over \$1.12 billion in additional loans. This represents an increase from last year's amount of \$1.095 billion. Since this measure is calculated as total dollars, the amount is not comparable to national averages and is dependent on the size of the state.

The **Sustainability of the Fund** indicator seeks to gauge how well each state's CWSRF fund is maintaining the invested capital, without making adjustments for loss of purchasing power due to inflation. Sustainability is a measure of *Perpetuity*, which is a measure of the amount of net earnings that has been generated by the operations of the CWSRF program. This indicator measures the amount of dollars which have been returned to the CWSRF over and above the initial Federal grants and State match deposits. These will contribute to the viability of the CWSRF and enable it to exist in perpetuity as intended by Title VI of the CWA. This value should be greater than \$0 (no net earnings). The Sustainability indicator for the State of Rhode Island has reached \$17 million in 2013, which is an increase over FY 2012's value of \$15.2 million. Again, this measure is dependent on the size of the program, so comparisons to any national averages are of limited value. The fact that the value is a positive value indicates positive returns to Rhode Island's CWSRF fund.

d. Un-liquidated Obligations

Un-liquidated obligations (ULO's) are federal funds that have been awarded to the state, but that have either not been awarded to a project or the funds have been awarded to a project but not yet drawn down. Congress is concerned that there are too many federal dollars sitting unused in the SRF program. Therefore, there is a concerted effort to reduce the level of ULO's. The issue is of special concern in the DWSRF program, such that they are developing a strategy to reduce the national ULO level. In the CWSRF program, the level of ULO's is not as high and no ULO reduction strategy is needed. However, the EPA CWSRF program will continue to work with their state counterparts to ensure that they continue to lower ULO levels and/or keep them low.

III. ONSITE REVIEW

EPA Region 1 thanks state staff for making themselves available for interviews and meetings as established in the review schedule found in Appendix A. The information gathered during interviews with state staff was used to complete the Annual Review Checklist developed by EPA Headquarters. The following sections summarize document reviews and discussions that took place onsite.

a. Transaction Testing

In accordance with the EPA's FY 2014 Oversight Plan, the following four cash draws were reviewed for the base CWSRF program. The transactions reviewed included transactions that were randomly selected by the U.S. Office of Management and Budget (OMB), the purpose of which is to develop a national estimate of improper payments from SRF programs. Those transactions that were part of the OMB random sampling are highlighted in yellow.

Table 3: Cash draws selected for transaction testing.

| Date of Cash Draw | Amount of Cash Draw | Description of Transaction |
|-------------------|---------------------|--|
| 11/2/12 | \$ 164,174.02 | CWSRF Admin. Draw |
| 1/28/13 | \$ 122,419.68 | CWSRF Admin. Draw |
| 5/31/13 | \$ 134.61 | CWSRF Admin. Draw |
| 3/22/13 | \$ 160,319.83 | CWSRF Project Fund Draw (Smithfield, RI) |

These transactions did not duplicate any of the transactions sampled during previous reviews and all of the items appeared to be eligible under the CWSRF program. The back-up documents associated with these payment requests were reviewed in detail to complete the transaction testing worksheets developed by EPA Headquarters. EPA Region 1 found the RICWFA staff to be very cooperative in providing well-organized documentation for the draws that were requested and answering any questions asked.

Review of the above transactions determined that each cash draw transaction occurred within a timely manner and that there were **no improper payments**.

b. State Match

The state matches for the RI CWSRF grants have been secured through state GO bonds through the FY 2013 capitalization grant. The deposit of the state match through the FY 2013 grant was verified through bond documents provided by the RICWFA. In addition to the state providing the 20% match on each capitalization grant, the state also demonstrated that it had provided a total of \$10.5M in overmatch in the CWSRF program beginning in December of 2005. The dates of the deposit for the overmatch was provided through a February 17, 2014 letter to EPA and verified in the bond documents reviewed during the on-site review which containing the deposit of the overmatch. Lastly, in 2013, the state passed a bond referendum which will provide a total of an additional \$20M in state GO bond match funds for both SRF programs (\$12M for the CWSRF and \$8M for the DWSRF) for future SRF grants beginning with the FY 2014 grants.

c. Proportionality

Since last year's on-site SRF review, EPA and the state worked together to address the issue of proportionality with respect to the cash draws made under the CWSRF program. As noted in last year's report, EPA found the state to be in *overall* compliance with proportionality at the point at which each capitalization grant is fully drawn (i.e., the point at which both the federal and state match funds have been fully disbursed from each capitalization grant). However, the review found that proportionality was not adhered to on a *transaction by transaction* basis, which is required as per the federal cash draw rules.

Subsequent to last year's SRF review, EPA HQ issued guidance on proportionality through a Question and Answer Memo (Q&A Memo) that set forth the proportionality requirements and options the states had available to it to achieve and maintain compliance with proportionality. One of the methods allows states to demonstrate that it had disbursed 100% of the equivalent

state match associated with a specific capitalization grant from its SRF fund (i.e., non-federal funds) prior to drawing the first federal dollar from the US Treasury from that same capitalization grant. As noted above, the RI CWSRF program deposited excess state match into the SRF fund beginning in December of 2005. By October 6, 2009, the state had deposited excess state match into the CWSRF fund (i.e., overmatch) in an amount which exceeded the required state match for the FY 2010, FY 2011 and FY 2012 capitalization grants (\$8M in overmatch was deposited into the SRF as of October 6, 2009). As of the same date, the state showed disbursements from its SRF fund in an amount that exceeded the equivalent state match required for the FY 2011 and FY 2012 capitalization grants. The FY 2011 and FY 2012 capitalization grants were the grants involved in the transaction testing that occurred during the current FY 2013 SRF annual review. In comparing the dates of the state's first draws on the FY 2011 capitalization grant (April 20, 2012) and FY 2012 capitalization grant (November 2, 2012), it was shown that the state met the proportionality requirements for these grants by showing that it disbursed an equivalent amount of state match from its SRF fund prior to making the first federal draw on those same grants. Because of this, there were no improper payments in the transactions reviewed for the current SRF review.

Noting that improper payments were identified during the previous SRF annual review, EPA went back and performed the same type of analysis to determine whether last year's improper payments were correctly identified as improper payments in light of the Q&A Memo on proportionality and the methods allowed to be used to demonstrate compliance with proportionality. During last year's review, all the transactions that were reviewed involved draws from the FY2010 CWSRF capitalization grant. Using the same method as outlined above, the state was able to demonstrate that it had disbursed the equivalent amount of state match funds associated with the FY 2010 capitalization from its SRF fund by October 6, 2009, which was well before the state made its first federal draw on that grant on October 7, 2011. Using this analysis, it was determined that the state was not in violation of the proportionality requirements on any of the cash draws reviewed during the previous SRF review. At this point, the state has demonstrated that it was in compliance with proportionality on a transaction by transaction basis for this year's review as well as last year's review. Moving forward, the state indicated that it will continue to use the 100% state match disbursement method to demonstrate compliance with this requirement for future capitalization grants. This will need to be clearly stated in each IUP that this is the method the state will use to demonstrate compliance with proportionality moving forward.

d. Sub-Recipient Monitoring

The RICWFA has made progress since the last SRF review with regard to the tracking and oversight of sub-recipient Single Audit Act submissions. During last year's review, the previous Compliance Officer, who was responsible for tracking Single Audit submissions from SRF loan recipients that triggered the reporting threshold, left the agency due to health reasons. Because of that, the previous review found that the tracking was not being performed consistently. This led to a recommendation that the Agency hire another Compliance Officer who would resume the role of tracking the sub-recipient reporting requirement. During 2013, the RICWFA hired a new Compliance Officer who took over the role of monitoring and tracking receipt of the submission of Single Audits by SRF recipients. Once the reports are received, the RICWFA reviews the reports for SRF related findings. If there are any noted in the Audit report, the RICWFA will work with the recipient to address the findings to ensure a successful resolution. This review found that the process for overseeing sub-recipient Single Audit submission has improved since the hiring of the new Compliance Officer and should continue to improve as more experience is gained.

e. Project File Reviews

In accordance with the EPA’s FY 2013 Oversight Plan, Project File Review Checklists were completed for the following two (2) base SRF projects:

- Rhode Island Airport Corp (RIAC) - (CA# 12-RA-01-13/3)
 - Total Loan Amount: \$33,500,000 million
 - Project Description: The project is to construct a Glycol collection and treatment facility at Greene Airport in Providence, RI, to prevent the runoff of glycol from airplane de-icing. The airport is required to install, in order to comply with the 2/2009 MOA signed between RIAC and RI DEM.

- Smithfield - (CA# 11-SM-01-12/1)
 - Total Loan Amount: \$3,370,000 million
 - Project Description: Upgrade existing WWTP to tertiary treatment. New treatment plant will be 31% more energy efficient than regular system.

Project, construction and administrative loan files were examined to ensure that projects are managed consistent with federal regulations and policies governing the CWSRF program. Files were checked for the inclusion of documentation supporting environmental review, construction permits, capacity analysis, project eligibility, DBE efforts, bidding process, inspections, invoices, and loan agreements. All documentation was available for review by the time that EPA arrived on site. No significant issues were identified for the projects reviewed. RIDEM staff was very helpful in addressing issues and answering questions during the review.

f. Additional Subsidy and Green Project Reserve (GPR) Requirements

The CWSRF program has emphasized green infrastructure and encouraged systems to integrate green applications into projects. The program has greatly exceeded the 20% goal in both years, with over 50% of the FY 2011 cap grant going to green infrastructure. The Agency provides the minimum amount of subsidy, in order to strengthen the long-term corpus of the fund. As of the date of this write-up CBR shows that the state has awarded their subsidy but not all funds have yet been drawn down due to the timing of the bond sale.

Table 4: 2011 Capitalization Grant Provisions

| 2011 Capitalization Grant Provisions (\$9,915,000) | | |
|---|--|------------------------------|
| Provision | Requirement | Total (as of 6/30/13) |
| Green Project Reserve | 20% minimum (\$1,983,000) | \$6,344,281 (64%) |
| Additional Subsidy (on funds above \$1B) | 20% minimum (\$918,782) 30% maximum (\$3,062,608) | \$918,782 |

Table 5: 2012 Capitalization Grant Provisions

| 2012 Capitalization Grant Provisions (\$9,486,000) | | |
|---|--|--|
| Provision | Requirement | Total (as of 6.30.13) |
| Green Project Reserve | 10% minimum (\$948,600) | \$1,519,034 (16%) |
| Additional Subsidy (on funds above \$1B) | 20% minimum (\$527,198) 30% maximum (\$790,796) | \$527,198 (awarded, not drawn down) |

IV. CONCLUSIONS

Overall, the state is implementing a well-organized, well-managed, efficient and effective CWSRF program. EPA commends RICWFA and RIDEM staff for working diligently to meet their commitments under the base program. The state’s goals of addressing risks to public health through the development and implementation of the CWSRF Program appear to have been met while running the program in accordance with pertinent 40 CFR Part 31 administrative requirements for grants to state and local governments.

a. Follow-up To Last Year’s Findings

There were 2 financial issues that required follow-up by the State this past year. The issues included: compliance with proportionality rules, and tracking of sub-recipient audit.

- The state was able to successfully demonstrate compliance with proportionality for the transactions that were examined during this review as well as those identified in last year’s review. Further, the state has indicated that it will continue to demonstrate compliance with proportionality moving forward by using the 100% state match equivalent method as indicated in the Q&A Memo on Proportionality developed by EPA HQ
- The review found that the process for overseeing the sub-recipient monitoring requirement was being implemented by the state. This is being accomplished through a tracking spreadsheet which the state continuously reviews for purposes of ensuring that CWSRF loan recipients submit Single Audits when federal expenditure thresholds are triggered. A new Compliance Officer was hired in 2013 to address this finding from last year’s PER.

As was detailed in Section III (c) and III (d) above, the RI CWSRF program has satisfactorily addressed each of these issues. The Region appreciates the actions taken by the Finance Agency to address these issues.

b. Findings and Recommendations for This Review

Both the RICWFA and RIDEM continue to work together to run a very effective leveraged SRF program. All previous issues were addressed satisfactorily. EPA Region I appreciates the dedicated work being given by the state to run an effective loan program. We hope that the state continues to move the program forward.

V. ANNUAL REVIEW PARTICIPANTS

Table 6: List of Annual Review Participants

| Name and Affiliation | Role/Responsibility | Participation | | |
|---------------------------|---|---------------|-----------|------|
| | | Entrance | Interview | Exit |
| Rhode Island | | | | |
| <i>Jack Birchell</i> | CWSRF, RI DEM | x | X | X |
| <i>Gary Chobanian</i> | RI DOH | X | | X |
| <i>Anna Coelho Cortes</i> | DWSRF, RICFWA | X | | X |
| Robin Hedges | CWSRF, RICWFA | X | X | X |
| <i>Michael Larocque</i> | Dep. Director, RICWFA | X | X | X |
| <i>Jay Manning</i> | CWSRF, RI DEM | X | X | X |
| <i>Michael Pagliaro</i> | Finance, RICWFA | X | | X |
| <i>June Swallow</i> | RI DOH | | | |
| William Sequino | Ex. Director, RICWFA | X | X | X |
| Helen Terra | RICFWA | X | | |
| EPA | | | | |
| James Bourne | EPA CWSRF Project Officer | X | X | X |
| Carolyn Hayak | EPA – Project File Reviewer | X | | X |
| Katie Marrese | EPA DWSRF Project Officer | X | X | X |
| Phyllis Nelson | EPA -- DWSRF Financial Analyst | X | | X |
| Mark Spinale | EPA Municipal Assistance Unit Manager EPA – CWSRF Financial Analyst | X | | X |