

ALASKA DRINKING WATER FUND

State Revolving Fund Annual Report

**FFY18 Grant Allotment
State Fiscal Year 2019**



**Prepared by Alaska Department of Environmental Conservation
Division of Water
For U.S. Environmental Protection Agency Region 10**

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I. INTRODUCTION

The Alaska Drinking Water Fund (ADWF), a component of the State Revolving Fund (SRF) Program managed through the Alaska Department of Environmental Conservation (DEC), was established pursuant to the 1996 amendments to the Safe Drinking Water Act, and Alaska Statute 46.03.032. The ADWF is managed to assist local authorities in financing the planning, design and construction of critical drinking water facilities through long term, low interest loans. Funds collected from loan repayments and interest are deposited into the ADWF and become available to loan to subsequent borrowers, creating a revolving funding source in perpetuity. The SRF Program is committed to protecting Alaska's water resources and public health.

II. EXECUTIVE SUMMARY

This annual report summarizes the operations of the SRF Program during State Fiscal Year 2019 (SFY19), July 1, 2018 through June 30, 2019. The goals and objectives outlined in the SFY19 Intended Use Plan (IUP) are listed with the progress made toward meeting each goal. This report summarizes the sources (federal grants and state matching funds) and uses (loans, program administration, and technical assistance) of the ADWF, and discusses compliance with federal Drinking Water State Revolving Fund (DWSRF) requirements.

Alaska's SRF Program was awarded \$11,107,000 in a DWSRF capitalization grant from the U.S. Environmental Protection Agency (EPA) during the reporting period. The required minimum 20% state match was deposited into the ADWF. Alaska issued ten new loan agreements and two loan amendments during SFY19. These loans and amendments committed a total of \$30.9 million in financial assistance for planning, design, and construction or improvement of drinking water infrastructure. The average finance rate on loans offered during the reporting period was 1.55%.

During SFY19, Alaska issued 42 disbursements totaling disbursed \$22.8 million from the ADWF to borrowers for eligible project expenditures. Repayments to the SRF Program totaled \$14.2 million, including principal, interest and a 0.5% administrative fee.

Major initiatives undertaken during SFY19 include the implementation of a Micro Loan program to provide assistance to small rural communities, and development of a Programmatic Financing option for the SRF Program's largest borrower.

The Alaska SRF Program continues to maintain compliance with federal regulations. The SRF Program has sought out training for staff through a contract with Northbridge Environmental in order to enhance awareness and understanding of the SRF requirements.

III. GOALS AND ACCOMPLISHMENTS

The goals listed below are re-stated from the SFY19 IUP with the SRF Program response regarding accomplishments and progress following.

Progress Toward Long Term Program Goals

Goal 1: Protect public health, minimize the potential for drinking water contamination, and promote the completion of projects and non-project activities using best management practices and affordable and applicable technology.

Goal 2: Develop and effectively manage a self-sustaining loan program to facilitate compliance with the Safe Drinking Water Act and the State of Alaska Drinking Water Regulations.

Progress Toward Goals 1 and 2: The ADWF program continues, in close cooperation with other State and federal programs, to provide assistance to those communities and systems that present the most significant public health and compliance problems in the State. During the review and scoring process when projects are added to the Project Priority List (PPL), the scoring committee includes staff familiar with drinking water compliance issues and source water protection, as well as nonpoint source water quality and wastewater issues. This multi-disciplinary team provides the insight necessary to understand the issues facing public water systems throughout the state. Sitka's Critical Secondary Water Supply project (Sitka 783531) provides an example of a project funded in SFY19 that will help the community to supply safe drinking water while also addressing ongoing turbidity exceedances in the surface water supply.

Goal 3: Foster coordination with other programs and agencies to improve assistance to water systems in their efforts to achieve compliance and improve capacity.

Progress Toward Goal 3: The Micro Loan program, a new SFY19 initiative, provides an example of how the SRF Program is seeking to further coordinate with other programs. Micro Loans provide funding to small, rural Alaska communities, for small projects that would otherwise be challenging to fund through traditional grant programs, or to finance aspects of larger grant funded projects that are ineligible through the grant. The SRF Program is actively collaborating with the Alaska Native Tribal Health Consortium (ANTHC) and the State of Alaska Village Safe Water (VSW) Program to offer these financing solutions.

Goal 4: Make funds available to borrowers based on estimated repayment schedules of future years. As needed, consider a more aggressive lending policy to provide sufficient funding to meet the needs of systems statewide.

Progress Toward Goal 4: As a first step toward a long-term lending strategy, the SRF Program has requested a proposal for developing a cash flow modeling tool that can be integrated into the existing Loans and Grants Tracking System (LGTS). Cash flow modeling will serve as the basis for developing a long-term strategy and operational planning. The output from this financial model will be used to forecast the financial performance of the ADWF into the future and make well-informed lending decisions. In SFY19, the SRF Program entered into a three year contract

with Northbridge Environmental for development of a variety of programmatic initiatives, including implementation of financial modeling.

Goal 5: Utilize the ADWF and Alaska Clean Water Fund (ACWF) administrative fee accounts for program administration expenses. Most of these expenses will be paid from the ACWF fee account until both accounts have a similar balance.

Progress Toward Goal 5: During SFY19, DEC utilized the ACWF fee account for administrative expenses of both the ACWF and ADWF. This practice is expected to continue until the balances of the two fee accounts are brought to relatively equivalent levels.

Goal 6: Investigate methods for encouraging borrowers to pursue green and sustainable projects.

Progress Toward Goals 6: The criteria for scoring projects includes points for projects that identify a green component. In SFY19, 17 projects were identified with a Green Project Reserve (GPR) component on the Project Priority List with a total projected GPR amount that exceeded \$11.8 million. Two of these projects with green components have received financing through the SRF Program; six additional green projects are expected to move forward with loan agreements in SFY20.

Goal 7: Develop a long term lending strategy.

Progress Toward Goals 7: A long term lending strategy begins with development of a cash flow model that is included in the discussion of Long Term Goal 4. The cash flow model is anticipated to be completed in SFY20.

Goal 8: Expand the borrower pool through an established marketing and outreach plan.

Progress Toward Goal 8: The SRF Program continues to expand its marketing efforts to new borrowers and to encourage a wider diversity of project types. As a result of initial discussions in SFY18 about a Micro Loan program for small rural water systems, several small communities new to the SRF Program submitted project questionnaires for consideration in SFY19. These projects are specific to the infrastructure needs in rural Alaska where distribution systems are often housed in aboveground utilidor.

After more progress is made to develop the long term lending strategy (Long Term Goal 7), additional effort will be focused on marketing and outreach to the potential borrowers who may most benefit from the support that the SRF Program can offer.

Goal 9: Develop program guidelines to improve the pace of loan projects.

Progress Toward Goals 9: As an initial step towards this goal, the SRF Program plans to internally assess metrics that measure fund resource utilization on a regular basis. A primary indicator of success in the SRF is the rate of fund utilization, or pace. A high rate of fund utilization indicates that more funds are actively being used for projects. This effort will be coordinated with the development of a cash flow model (Long Term Goal 4) that allows the SRF Program to more accurately identify the available funds to loan.

Goal 10: Establish a process for coordinating funding strategies with other lenders such as U.S. Department of Agriculture Rural Development.

Progress Toward Goal 10: The SRF Program remains open to opportunities to coordinate funding with other agencies. The project scoring process offers points if a borrower is seeking a SRF loan in conjunction with other state or federal funding. During SFY19, the SRF Program issued a loan agreement to refinance a Rural Development (RD) loan for a water infrastructure upgrade project at a lower interest rate. An application for another RD refinancing project from a different community is also currently under consideration.

Goal 11: Establish a Micro Loan program targeted at providing small, subsidized loans to rural communities.

Progress Toward Goal 11: The SRF Program has accepted applications for Micro Loan projects and is working toward offering loan agreements in SFY20, while concurrently refining the framework for the Micro Loan program. Tasks completed in SFY19 include the establishment of a subsidy matrix based on an affordability model and capacity assessment tool specific to communities eligible for Micro Loans, creation of a web page with information about how to apply for Micro Loans, and development of a combined questionnaire/application form that simplifies the administrative process of applying for a loan for smaller communities. Three Micro Loans are currently pending in SFY20 with interest expressed by other communities in applying for additional loans.

Goal 12: Revisit the recommendations of the Citizen's Advisory Board Report and subsequent Capacity Development Strategies to determine what needs remain and which have addressed. Engage stakeholders to determine additional current needs and develop a revised Capacity Development Strategy.

Progress Toward Goal 12: During SFY19, the Technical Assistance and Financing (TAF) Program began development of an interim Capacity Development Strategy to be more reflective of current capacity efforts, which included a review of the Citizen's Advisory Board Report and subsequent Capacity Development Strategies. Once complete, TAF intends to engage stakeholders, gather input on the interim strategy and existing capacity needs, and explore new methods for meeting those needs. This stakeholder input will be used to confirm or update significant program initiatives and will culminate in a comprehensive and official strategy revision.

Goal 13: Ensure full compliance with American Iron and Steel and Davis-Bacon requirements for all SRF loans.

Progress Toward Goal 13: The SRF Program continues to work with borrowers to ensure compliance. Additional guidance materials have been added to the Alaska SRF Program website.

Progress Toward Short Term Program Goals

Goal 1: Provide low interest loans for planning, design and construction of facilities that will reduce acute health risks and provide safe drinking water.

Progress Toward Goal 1: During SFY19, the SRF Program entered into 10 new loan agreements and three loan amendments with seven public water systems totaling \$30.9 million.

Goal 2: Develop and distribute guidance materials to current and potential borrowers.

Progress Toward Goal 2: The SRF Program continues to work on updates and revisions to the website. During SFY19, several information resources and forms were updated or revised. A borrower's application checklist has also been developed. In addition, the SRF Program staff initiated work on a borrower's handbook.

Goal 3: Develop and distribute marketing materials to improve outreach to potential borrowers.

Progress Toward Goal 3: An improved SRF Program website design has been identified as a key initial key step to allow potential borrowers to learn more about the loan application process and potential benefits for their community. The SRF Program plans to begin making revisions to the website in SFY20 to make information resources easier to find and simplify website navigation.

Goal 4: Develop structure and procedures for the Micro Loan program for implementation in SFY20.

Progress Toward Goal 4: As noted under Long Term Goal 11, important accomplishments in standing up the Micro Loan program have included the development of an affordability model specific to Alaskan communities, adding a Micro Loan information website, and creation of a combined questionnaire/application for potential Micro Loan projects. Other work underway, and expected to be completed in SFY20, includes the preparation of Micro Loan agreement templates and related documents including funding transfer agreements and cooperative project agreements that will allow ANTHC and VSW to assist rural community borrowers in administration of the loan funded projects.

Goal 5: Evaluate subsidy allocation methods.

Progress Toward Goal 5: The Alaska SRF Program provides subsidy in the form of principal forgiveness based on disadvantaged community status. The SRF Program completed an effort to ensure that the minimum required additional subsidy amount was met for past years up to and including Federal Fiscal Year 2016 (FFY16). The Program continues to work to ensure that additional subsidy is committed in a loan agreement within two years of issuance of each capitalization grant.

Goal 6: Develop an online resource for borrowers about all potential sources of infrastructure funding including Water Infrastructure Finance and Innovation Act (WIFIA) loans.

Progress Toward Goal 6: Completion of this goal will be incorporated into the revision of the website and development of marketing and outreach materials (Short Term Goal 3) which is anticipated in SFY20.

Goal 7: Fully implement equivalency to reduce the regulatory burden on the majority of borrowers.

Progress Toward Goal 7: The SRF Program has been coordinating with Anchorage Water and Wastewater Utility (AWWU) in regard to a Programmatic Financing option. Historically the largest borrower for the Program, AWWU is interested in entering into financing for a group of capital improvement projects on an annual basis. A draft Pro Fi loan agreement has been provided to AWWU and is currently undergoing review. The Pro Fi loan agreement is anticipated to be used to meet all federal equivalency requirements. Further, the Program has coordinated with the State's Department of Administration, Division of Finance, to clarify the federal reporting requirements for both equivalency and non-equivalency projects to prevent any potential confusion or conflicts regarding single audit requirements.

Goal 8: Initiate enhancements to the online payment request and quarterly report system to improve the user experience and data collection.

Progress Toward Goal 8: The SRF Program has initiated work on a combined disbursement request / progress status report to simplify reporting requirements for borrowers. The combined form was developed in the Online Application System (OASys). The SRF Program is working to introduce this change to borrowers and create a step-by-step instruction guide for OASys users. Completion of this task is anticipated in SFY20.

Goal 9: Utilize a portion of the capitalization grant for set-aside activities.

Progress toward Goal 9: DEC continues to utilize set-aside funds for work completed by the Capacity Development and Operator Certification Program and the Division of Environmental Health's Drinking Water (DW) Program.

Goal 10: Develop a method for conducting Financial Capacity Assessments in-house.

Progress toward Goal 10: The SRF Program created a staff position for a Local Government Specialist during SFY19, which was filled in early SFY20. This position will be responsible for completing Financial Capacity Assessments for pending loan agreements. The SRF Program has worked closely with Northbridge Environmental to refine a process for assessing financial capacity assessment and developing recommendations related to financial capacity that can be included as special conditions in loan agreements.

Goal 11: Target shovel ready projects while improving access to borrowers by accepting project questionnaires year-round with quarterly amendments to the Project Priority List.

Progress toward Goal 11: This goal has been met. The SRF Program began accepting questionnaires on a year round basis in SFY19. This process continues in SFY20.

Goal 12: Finalize implementation of loan process improvements identified during the June 2017 Lean Kaizen event.

Progress toward Goal 12: The SRF Program continues to meet periodically to review the process maps developed in the 2017 Lean Kaizen event and foster a culture of continuous improvement. SRF Program staff are encouraged to work together proactively to achieve

incremental enhancements in SRF Program processes from the project application phase through loan repayment. A large number of the remaining improvements identified in the Kaizen event require enhancements to the LGTS database. During SFY20, staff will be working with Northbridge to prioritize and implement those enhancements.

Goal 13: Develop a method to provide funding for emergency projects.

Progress toward Goal 13: While the Alaska SRF Program does have a mechanism for funding emergency projects, it is very limited in scope and may not be applicable for the most likely emergency situations. More research is planned to identify successful methods that other states have adopted to provide emergency funding.

Goal 14: Develop and distribute Davis-Bacon guidance materials to borrowers.

Progress toward Goal 14: Significant revisions to the loan agreement templates in SFY19 expanded the description of the Davis-Bacon requirements. The 2017 EPA draft guide for implementing Davis-Bacon wage requirements has been added to the SRF Program website. Additional materials will be added as appropriate.

IV. FUND FINANCIAL STATUS

During SFY19, the net position of the ADWF increased by \$10.8 million. Further details may be found in the Financial Statements provided in Exhibit 4.

Sources of Funds

The sources of funds for the ADWF include the federal capitalization grant, the required 20 percent state match, repayments from borrowers, and investment earnings.

- Capitalization grant - The State of Alaska was awarded \$11,107,000 under the FFY18 capitalization grant.
- State match - The state issued short-term bonds to acquire the proceeds to provide the 20 percent state match. The net bond proceeds amounted to \$2,221,400 in short-term debt. The debt was retired in one day.
- Repayments - A total of \$13,447,486 was collected in principal repayments plus interest. Per state regulation, an administrative fee of 0.5% of the principal balance is assessed on all disbursed loan funds. The fees collected are used solely for administration of the SRF Program and are held in a separate fee account, outside the ADWF. A total of \$752,795 was collected in fees in SFY19.
- The Alaska Department of Revenue earned investment income of \$1,971,480 for the ADWF in SFY19.

Binding Commitments

As shown in the table below and in Exhibit 1, the SRF Program entered into 10 new loan agreements with seven public water systems totaling \$25,048,034 in this reporting period. The loans ranged from

\$56,465 to \$17,620,000. In addition, the SRF Program issued \$5,850,783 in amendments to existing loan agreements. The SRF Program also completed 18 de-obligations of loan funds totaling \$9,000,466. The majority of the de-obligations were for completed projects that had not expended the full loan amount.

New Assistance Agreements and Changes in Assistance – SFY19		
Agreement Date	Project	Amount
NEW LOANS		
7/10/18	AWWU - 131541	\$400,000
7/10/18	AWWU - 131551	\$851,000
7/13/18	Wrangell - 917051-G	\$542,249
10/10/18	Sitka - 783421-G	\$1,500,000
10/15/18	Potter Creek - 695001	\$56,465
10/15/18	Potter Creek - 695011	\$236,353
1/16/19	Ketchikan - 481081-S	\$1,591,967
1/16/19	Sitka - 783531	\$17,620,000
1/22/19	Ketchikan - 481191	\$1,250,000
4/15/19	Haines - 395251-S	\$1,000,000
	Subtotal for new loans	\$25,048,034
LOAN AMENDMENTS		
4/15/19	AWWU - 130181-G	\$5,000,000
6/6/19	AWWU - 131531	\$850,783
	Subtotal for amendments	\$5,850,783
DEOBLIGATIONS		<i>(\$9,000,466)</i>
NET ASSISTANCE PROVIDED		\$21,898,351

Disbursements

Disbursements from the ADWF totaled \$22.8 million in SFY 19. This total is broken down into the following categories:

- \$8.2 million was from the federal capitalization grant,
- \$2.5 million was from state matching funds, and
- \$12.1 million was from repayment funds.

Additionally, \$1.5 million of these disbursements was forgiven.

For the ADWF base loan program, the grant-specific method is used to determine federal/state proportionality as defined in the Guide to Using EPA's Automated Clearing House for the Drinking Water State Revolving Fund Program (EPA-832-B98-003). For SFY19, the proportionality ratio was 76.88% federal, 23.12% state.

Exhibit 2 documents all disbursements requested and the amounts drawn from federal and state funds in SFY19. Exhibit 3 shows all disbursements made to a loan by state fiscal year.

Set Aside Expenses

Program expenditures for the ADWF set-asides totaled \$2,874,892 and are broken down into the following categories:

Capacity Development and Technical Assistance	\$731,677
Compliance Assistance	\$421,141
Wellhead Protection	\$402,470
Program Management	\$1,319,605

The SDWA allows up to 2% of the state's annual capitalization grant to be used for technical assistance activities targeted at small systems. In SFY19, Alaska banked all allowable Small Systems Technical Assistance funds for future use.

Audit Report

The ADWF was audited as a major federal program under the Single Audit Act. The State's Single Audit Report for the fiscal year ending June 30, 2019 will be released in January 2020. The ADWF contracted for an independent audit for SFY19. A draft copy of this audit, which notes no reportable conditions, is attached as Exhibit 5.

V. ASSISTANCE ACTIVITIES

Financial Assistance Activities

Exhibit 1 lists the community served, project number, assistance amount, loan agreement date, loan finance rate and the amortization period of each loan.

Project Bypasses

During SFY19, there were no formal bypasses. During a two month period following the issuance of the IUP, the highest scoring projects were allotted the first opportunity to submit loan applications. Following this initial two month period, sufficient loan funds remained, and several other projects with a lower score proceeded to submit loan applications on a first come, first served basis.

Additional Subsidization – Disadvantaged Community Assistance

The SFY19 capitalization grant requires that at least 20% of the grant be offered in the form of additional subsidy. Based on the \$11,107,000 capitalization grant, the minimum required subsidy is \$2,221,400.

While developing the IUP, subsidy consideration was given to eligible disadvantaged community borrowers that were able to demonstrate a project's readiness to proceed with a maximum of \$500,000 offered per borrower. Eleven potential projects were initially identified in the IUP for subsidy in the form of principal forgiveness. One of those 11 projects has proceeded forward and received a loan agreement. Applications have been submitted for five additional projects identified for subsidy and completion of loan agreements is pending. The completed and pending loan agreements that include additional subsidy are listed below.

Additional Subsidy Allocation, Completed and Pending Loan Agreements– SFY19			
Community / Project	Loan Request	Additional Subsidy	Comment
Haines – 395251	\$1,000,000	\$500,000	Loan agreement completed.
Alpat Water Utility – 125001	\$693,551	\$346,776	Loan application received. Agreement pending.
Nome – 627241	\$2,433,988	\$500,000	Loan application received. Agreement pending.
Noorvik- 628002	\$29,275	\$23,420	Micro Loan application received. Agreement pending
Savoonga – 785002	\$37,463	\$29,970	Micro Loan application received. Agreement pending
Togiak – 851001	\$770,719	\$616,575	Micro Loan application received. Agreement pending
	TOTAL	\$2,016,741	

The SRF Program will re-evaluate the status of other projects included on the SFY19 Project Priority List to determine other borrowers that meet requirements for disadvantaged community status and have projects they are proceeding with a loan application. Additional subsidy will be allocated in loan agreements to reach the minimum requirement by the end of SFY20.

Small System Participation Threshold

Of the \$25.0 million in new loan funds awarded in agreements issued in SFY19, 95% was extended to systems in communities serving a population of 10,000 or less (see Exhibit 1). Alaska continues to far exceed the 15% small system participation threshold.

Technical Assistance Activities of the Capacity Development and Operator Certification Program

The Capacity Development and Operator Certification Program (CDOC), a component of the TAF Program, provides technical assistance to owners and operators of approximately 645 public water systems in Alaska. In particular, the program establishes criteria for water system classification and operator certification, facilitates operator education and training opportunities, administers certification exams, and coordinates capacity development activities statewide. During SFY19, CDOC used Local Assistance (LA) Set-Aside funds to support these activities.

Operator Certification Database Enhancements

CDOC utilized LA funds for the continued development of the Operator Certification database. Enhancements completed during SFY19 include functionality that allows logging all contacts with the public and other state entities. The contact log allows CDOC staff to categorize contact type as phone calls, emails, letters, faxes, and walk-ins. The contacts can be further categorized into the subject of the contact, including continuing education, compliance, courses, eligibility, exams, renewal, or other. This enhancement allows for bulk entry of compliance assistance and enforcement actions that are applicable to multiple operators or systems and for staff to review past contacts. The contacts are then stored in the operator's or system's record.

Certification Exams

CDOC is a member of the Association of Boards of Certification (ABC), and with the exception of the Small Treated and Small Untreated exams, all operator certification exams administered by CDOC are ABC exams. LA funds were applied to ABC dues and exam services.

Administration of Operator Certification Exams

During SFY19 CDOC administered two statewide paper-based certification exam cycles that allowed 14 operators to take 17 water related certification exams, resulting in eight passed exams and five certifications. Exam cycle exams are only administered in locations where online exams are also available and give operators a paper-based option as opposed to computer-based testing. During the SFY19 exam cycle, paper-based exams were administered in Anchorage, Barrow, Fairbanks, and Prudhoe Bay. Approximately \$450 of LA set-aside was used to provide proctors at locations throughout the state for these exams.

CDOC also administered 65 on-demand water treatment/distribution exams to 45 rural operators in 27 rural communities with 32 exams passed resulting in 21 certifications. For the remaining 11 exams with passing scores, applications for certification have not yet been submitted.

Provisional level water treatment/distribution exams were administered at introductory courses taught by native health corporations, private trainers, and the Alaska Job Corps. Courses consisted of four days of instruction followed by the water treatment and water distribution provisional level exams. The small untreated and small treated exams were also administered at courses as needed. One hundred ninety-eight operators attended one of 14 courses and took a total of 267 exams. Operators passed 125 exams with 53 resulting in certification. For the 72 remaining, applications for certification have not yet been submitted.

Small treated exams were administered at small treated water systems courses taught by regional health corporations. Courses consisted of two and a half days of instruction followed by the small treated exam. Fifty-seven operators attended one of four courses and took 57 exams. Operators passed 32 exams with 31 resulting in certification. For the one remaining, the operator did not meet minimum education requirements.

Level 1 and 2 exams were administered at combination level 1 and 2 courses taught by native health corporations and private trainers. Courses consisted of four days of instruction followed by the water treatment and water distribution exams. Thirty-three operators attended three courses and took a total of 39 exams. Operators passed 26 exams resulting in 12 certifications. For the 16 remaining, applications for certification have not yet been submitted. Online certification exams for small untreated and small treated water system operators were available at 11 testing locations: Anchorage, Bethel, Dillingham, Fairbanks, Homer, Glennallen, Kenai, Ketchikan, Klawock, Kodiak, and Palmer. Twenty-four operators took online small water system exams with 24 passing with all resulting in certification. Online water treatment and water distribution exams were available at 14 testing locations throughout Alaska: Anchorage, Bethel, Barrow, Cordova, Fairbanks, Homer, Juneau, Kenai, Ketchikan, Klawock, Kodiak, Palmer, Sitka, and Valdez. The expedited registration process allows

operators to be authorized for online exams in less than a month. Registration deadlines are the 1st of each month and operators are authorized for exams by the 22nd of the same month. Operators are allowed 100 days from authorization to take exams. The OpCert database provides operators the convenience of online exam registration using credit cards to pay fees. Ninety-five operators took 143 water treatment/distribution exams online. Operators passed 79 exams resulting in 41 certifications. For the 38 remaining passed exams applications for certification have not yet been submitted.

System Specific Training and Certification

During SFY19, CDOC continued to work with staff at the University of Alaska, Anchorage, College of Engineering, on the development of training modules with the goal of completing this effort by the end of SFY20. This effort began in SFY12 when the program set out to develop a strategy for certifying operators who are otherwise challenged by conventional means of certification. A significant number of water systems are chronically out of compliance with the operator certification requirements. Operators of these systems have shown little or no progress toward becoming certified.

Based on the input of a workgroup, and eventually, the Governor's Water and Wastewater Works Advisory Board, CDOC is moving forward with the development of a System Specific Training and Certification (S²TC) Program. The S²TC Program will consist of a series of training modules covering topics related to individual components of Alaskan water systems. Additionally, there will be certification exams that accompany each training module. Participating operators will complete the educational portion of each module that applies to the system they operate before taking the accompanying certification exam. Once an operator completes all relevant modules and passes the individual certification exams, CDOC will issue a system specific certification.

Introductory and Intermediate Water Treatment Course Development

Recent changes in certification exams and water treatment technology have created a need for updated training curriculum for Alaskan operators. CDOC uses exams produced by the Association of Boards of Certification (ABC). As ABC has updated their exams in the past few years to reflect changes in water treatment technology and related job duties, national water industry organizations have produced new study and exam preparation materials to track these changes. Particularly, in 2017, American Water Works Association (AWWA) released three manuals, Water System Operations (WSO) Water Treatment, Grades 1-4, intended to assist in the training of grade 1 through grade 4 operators.

In order to help Alaskan operators better prepare for their jobs and for certification exams, CDOC solicited proposals for the development of introductory and intermediate courses that utilize the AWWA WSO Water Treatment Grade 1 and 2 manuals as the base texts. Once completed, the courses will address the unique needs and requirements of water treatment operations in Alaska, while also providing broadly applicable knowledge required for ABC certification exams.

The contract for this "course in a box" was awarded to NTL Alaska Inc. in 2019. NTL Alaska Inc. is currently developing materials that can be used to conduct 4-day trainings for both introductory and intermediate operators, including PowerPoint presentations and associated required media,

instructions for interactive learning tasks, lists of suggested exhibits for hands-on learning, and tools for assessing operator knowledge before, during, and after a course.

Once completed, CDOC will provide these training materials to Alaskan trainers, municipalities, regional health corporations, and other interested parties who are interested in conducting trainings for their operators. The course in a box will be available to operators of all system types.

AWWA Water System Operations (WSO) Guidebooks

In order to provide additional resources to operators statewide, the CDOC Program purchased AWWA WSO Water Treatment Grades 1 and 2 manuals and Certification Exam Prep books. Operators who have taken and failed certification exams are prioritized and provided these resources free of charge. CDOC is currently developing a study program that will incorporate quizzes to track operator progress and ensure that the WSO guidebooks are being utilized.

Utility Recognition

In an effort to express appreciation and recognition for the systems, and operators, that have achieved compliance with DEC regulations, CDOC has initiated an annual utility recognition program. This program aims to increase the visibility of systems and operators who have demonstrated their commitment to providing safe drinking water, as community appreciation is essential to maintaining technical, managerial, and financial capacity. By increasing visibility, CDOC hopes that the positive recognition will contribute to employee retention and community support, and encourage improvements in systems that are not currently recognized.

The Water System Excellence award is comprised of two tiers: Ursa Major and Ursa Minor. A water treatment system, water distribution system or water treatment system with a water distribution system will be awarded Ursa Major if it has maintained four quarters of Operator Certification compliance and no incurred Drinking Water violations during a calendar year. Ursa Minor is awarded to a system that has maintained four quarters of Operator Certification compliance and has not incurred more than one Drinking Water violation during a calendar year, or three quarters of Operator Certification compliance and no incurred Drinking Water violations during a calendar year.

For calendar year 2018, 303 systems were awarded Ursa Major and 79 systems were awarded Ursa Minor. These systems received recognition at the Alaska Water Wastewater Management Association annual statewide conference, on the DEC website and via letter. Additional recognition categories will be added in the future for systems who maintain the Ursa Major tier for multiple years in a row.

Operations and Maintenance Best Practices Score

The Operations and Maintenance Best Practices score is a tool used since mid-2015 to assess the capacity of rural water utilities, determine eligibility for funding, and prioritize community sanitation projects. TAF Program staff oversee the management of the Best Practices scoring.

Rural utilities are scored twice per year on the following technical, managerial, and financial categories:

Technical:

- Operator Certification
- Preventative Maintenance Plan
- Compliance

Managerial:

- Utility Management Training
- Meetings of the Governing Body

Financial:

- Budget
- Revenue
- Worker's Compensation Insurance
- Payroll Liability Compliance

Each of these nine categories are evaluated and scored using established scoring criteria for a total possible score of 100 points.

Best Practices scores are used for eligibility and/or project scoring for a variety of funding sources available to rural Alaskan communities for infrastructure improvements, including the Indian Health Service Sanitation Deficiency System grants, EPA Tribal and Indian Set-Asides and Alaska Native Villages grants, USDA RD Rural Alaskan Villages grants, VSW Infrastructure Protection Project grants, and SRF Micro Loans.

Access to these funding sources incentivizes communities to acquire and maintain technical, managerial, and financial capacity, and communities are encouraged to actively work with agency staff to improve system capacity, and by extension, their Best Practices score. CDOC works in coordination with the Rural Utility Business Advisor Program and the Remote Maintenance Worker Program, as well as ANTHC, regional health corporations, and other technical assistance providers, to support communities in their efforts to build capacity. A number of resources, such as sample preventative maintenance plans and financial reports, operator trainings, management and financial trainings, and assistance with QuickBooks and taxes are offered to assist utilities with their Best Practices scores.

New Public Water System Financial and Managerial Reviews

Historically, the DW Program conducted financial and managerial capacity reviews for new systems as part of their plan review process. During SFY19, TAF Program staff took over the financial and managerial capacity reviews for new systems. This new process is documented in Alaska Capacity Development Program Report for SFY19 submitted in October 2019.

Public Outreach

Another avenue of offering assistance on a statewide basis is through public outreach/formal presentations at statewide professional conferences, including the Alaska Rural Water Association (AEWA) Annual Conference, and Alaska Water Wastewater Management Association (AWWMA) Annual Conference. TAF Program staff regularly deliver formal presentations on technical and

managerial subjects at these conferences. The primary audience at these presentations are typically public water system (PWS) owners and operators and consulting engineers.

Division of Environmental Health Set-Aside Activity Status

The Division of Environmental Health, DW Program, utilized funds from both the Public Water System Supervision (PWSS) Program Management set-aside and the Local Assistance set-aside for various compliance assistance, technical assistance, and source water protection efforts.

Program Management Activities

Maintain State Primacy and Regulations

DW Program development and management activities associated with grant applications, including budget and work plan submittals, were completed within appropriate time frames. DW Program staff continued to provide guidance and compliance assistance, on an on-going basis, to public water system owners and operators on interpretation and implementation of adopted regulations for which the state has received primacy.

The Technical Corrections regulations project to the state Drinking Water Regulations, 18 AAC 80 was completed and became final in May 2019. The Fee Amendments portion of the project was separated into its own project during SFY19 due to the need for additional study, data, and information. The Fee Amendments project will continue into SFY20.

Compliance, Enforcement, and Engineering Activities

During SFY19, the DW Program began development of a replacement for the Enhanced Sanitary Survey (ESS) program. The team did a comprehensive review and revision of the questions contained in the current ESS, along with the corresponding deficiencies and compliance actions. The results of the revisions were used to develop a new comprehensive question set that was beta tested by DW Program staff while performing sanitary surveys over the summer months of 2019. The results of the beta test are currently under review. The 40 hour Basic Sanitary Survey class was taught by DW Program staff, and 11 new Sanitary Survey Inspectors were approved during SFY19. Additionally during SFY19, the DW Program continued to provide timely, effective, and efficient review of engineered plans for public water system (PWS) construction, modification, and operations that were not completed under the PWSS grant.

Data Management and Information Technology

During SFY19, the DW Program purchased replacement computers for staff with outdated or damaged computers or components. Updates to the DW Program website occurred during this fiscal year to keep the website information current and relevant. One significant change in SFY19 was the addition of the Compliance Monitoring Data Portal (CMDP) Lab Information webpage which provides resources for labs submitting data through CMDP (<http://dec.alaska.gov/eh/dw/laboratories/>). Additionally, in SFY19 several DW Program staff received website training and are able to make edits to the website that the DW Analyst Programmers review and publish. This change has made it easier and quicker to complete website updates.

Public Outreach & Staff Training

DW Program staff provided presentations at the ARWA (October 2018) and the AWWMA (May 2019) conferences, both held in Anchorage, during SFY19. In addition to webcasts and the routine in-state trainings staff participate in, one DW staff members was able to attend Association of State Drinking Water Administrators Data Management User's Conference (July 2018) in Salt Lake City, UT.

Program Administration and Technical Assistance Activities

Direct Technical Assistance

Existing public water systems that undergo changes, upgrades, or expansion are required to submit engineering plans to the DW Program for review. In all cases, the DW Program engineering staff do a technical capacity review of these plans to ensure the design meets the specific treatment objectives for the system. During the review, it is very common for the DW Program engineer to provide technical assistance to the design engineer prior to significant investment in the proposed modification. In cases where there are significant upgrades, an increase in the complexity of the treatment train, or a significant expansion to the size (population served) of a system, a financial and managerial capacity review is done as well. In cases where sustainability issues have been noted in the past, financial and managerial reviews are done regardless of the extent of the upgrades. The results of the review are sent to the submitting design engineer as well as the system owner. Historically, the DW Program conducted financial and managerial capacity reviews for new systems. During SFY19, TAF Program staff took over the financial and managerial capacity reviews for new systems.

The DW Program continues to partner with several agencies who provide training and technical and managerial assistance to public water system operators, including the ARWA, Rural Community Assistance Corporation, and USDA RD. The DW Program works with these agencies to share information on training opportunities, as well as sharing information of specific communities and systems that could benefit from the technical, financial and managerial advice or assistance that these agencies have to offer.

Program Development, Coordination, and Training

The DW Program participated in SRF questionnaire scoring committee meetings to help evaluate projects for SRF Program funding in SFY19. DW Program staff did not attend Cross-Connection Control Surveyor training nor the Region 10 Treatment Technology Workshop, as indicated in the SFY19 Set-Aside Work Plan. However, two staff members attended the ASDWA/EPA Small Systems Drinking Water Treatment Technology and Compliance Workshop (August 2018) in Cincinnati, OH.

Drinking Water Protection Program Activities

Geographic Information System

The Drinking Water Protection (DWP) staff continues to maintain and revise the public-facing web mapping application and the associated public water system data. The web map is an extremely important part of Alaska's approach to promoting awareness and protection of public drinking water systems. To date, this public web map has had 51,854 total views, an increase of 6,499 over last year. The average number of daily visits is 18. The Drinking Water Protection Areas web service has had

47,254 total views, an increase of 6,944 over the last year. The web map can be located at:

<http://www.arcgis.com/home/webmap/viewer.html?webmap=13ed2116e4094f9994775af9a62a1e85>

The web service can be found here:

<http://www.arcgis.com/home/item.html?id=6e8aab1f0f6449c08dba50a47aeae009>

In addition, an internal web map, available to all staff within DEC, continues to provide additional information including well/intake locations, water rights and well log information for all staff. The DEC internal web map has had 13,724 total views, an increase of 1,554 over last year.

Agency Collaboration

The DWP group continues to make connections with various state and federal agencies to integrate Drinking Water Protection Areas into the permitting process for various activities. A total of 577 requests to comment were received and completed during SFY19.

Educational Outreach

Activities completed in SFY19 include presentations and/or participation at the Alaska Rural Water Association's conference, Alaska Waste Water Management Association (AWWMA) Annual Conference and various announcements through the Drinking Water Protection Listserv (National Protect Your Groundwater Day and National Groundwater Protection Week) and short presentations to schools.

Synthetic Organic Chemical (SOC) Monitoring Waivers

A total of 388 Synthetic Organic Monitoring Waivers for the 2017-2019 SOC Waiver cycle were reviewed and processed by the Drinking Water Protection group.

Source Water Assessment (SWA) Reports

The completion and updating of Source Water Assessment Reports has been discontinued. The delineations of Drinking Water Protection areas and verification of well/intake locations continue to be updated. During SFY19, the following was completed:

- Delineations Drinking Water Protection Areas: 25 completed
- Provisional Protection Areas: 2 completed
- Source Location Updated in SDWIS: 79 sources in SFY19
- Source Location Verification (<26'): 61 sources in SFY19

Voluntary Reporting of Substantial Implementation

There are 164 Community Water Systems with substantially implemented protection strategies; these systems serve water to 444,308 persons. No changes were reported for SFY19.

The Drinking Water Protection group of the DW Program continues to look at ways to develop incentives for public water systems to develop and implement Drinking Water Protection Plans. Recent administrative changes to the SRF Program are expected to result in closer collaboration and opportunities to include Drinking Water Protection Plans in future SRF projects.

VI. OPERATING AGREEMENT AND CAPITALIZATION GRANT CONDITIONS

DEC continues to adhere to the specific administrative conditions in the Operating Agreement for the SRF Program and the special conditions of the capitalization grant. The following special conditions or compliance requirements have been met:

- Establish state authority;
- Comply with applicable state laws and procedures;
- Review technical, financial and managerial capacity of assistance recipients;
- Establish ADWF loan account, set-aside account, and ADWF administration account;
- Deposit all funds in appropriate accounts;
- Follow state accounting and auditing procedures;
- Require ADWF loan recipient accounting and auditing procedures;
- Submit IUP and use all funds in accordance with the plan;
- Comply with enforceable requirements of the Act;
- Establish capacity development authority;
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action; and
- Develop and submit project priority ranking system.

State Match

In SFY19, Alaska deposited into the ADWF account an amount that equals at least 20% of the grant payment. Alaska issued short-term bonds to acquire the required match amount proceeds to match federal grants in the base loan program. The net bond proceeds amounted to \$2,221,400 in short-term debt that was retired in one day.

Annual Report and Annual Audit

The submission of this document will fulfill Alaska's responsibility to submit an Annual Report. DEC contracted with Elgee Rehfield, LLC for an independent audit of the ADWF to address funding activity from the loan account, the set-aside accounts, and the administrative fee account. A copy of the independent auditor's report is attached.

Confirmation of Borrower's Source of Repayment

All potential loan recipients must undergo a financial capacity assessment to establish the credit worthiness of borrower. This evaluation determines whether or not an applicant has the ability to repay a loan, including an identification of a dedicated revenue stream sufficient to repay the loan.

Expeditious and Timely Expenditure

A need for available SFY19 funds was identified through the IUP process, and the Program has worked aggressively to commit those funds. Projects with binding commitments moved in an expeditious and timely manner toward construction. Construction progress will be monitored to ensure operations are initiated according to schedule.

Compliance with Federal Cross-cutting Authorities

The State of Alaska and the assistance recipients have complied with all applicable federal cross-cutting authorities.

Disadvantaged Business Enterprise (DBE) Requirement

As a condition of SRF Program loan agreements, borrowers are required to encourage participation of small minority- and women-owned businesses in all project subcontracts. The State's DWSRF percentage goals through September 30, 2019 are 3.67% for Minority Business Enterprises (MBE) and 1.54% for Women Business Enterprises (WBE). Funded projects are required to report their progress on meeting these goals on an annual basis.

Alaska submitted a MBE/WBE fair goal rate proposal on May 31, 2019 identifying the following goals:

MBE: 3.26% WBE: 1.48%

The response from EPA Region 10 on September 3, 2019 indicated that this proposal will be effect from October 1, 2019 through September 30, 2022.

State Environmental Review Process

For all projects funded in SFY19, the SRF Program reviewed documentation to determine the appropriate environmental action in accordance with the State Environmental Review Process (SERP). Nine of the 10 projects funded with new loan agreements in SFY19 were determined to meet requirements for a categorical exclusion. One project (Sitka 783531) will require an Environmental Assessment prior to construction. The project is currently in the planning and design phase. Completion of an Environmental Assessment and issuance of a Finding of No Significant Impact, if appropriate for the project, will be required prior to approval of construction funding for the project.

Capacity Development Strategy

Alaska has complied with all the provisions related to capacity contained within the 1996 amendments to the SDWA and has the authority and means to ensure new systems have adequate capacity. ADWF loan applicants are reviewed to ensure they have adequate capacity and EPA has approved Alaska's Capacity Development Strategy. As noted in Long Term Goal 12, the TAF Program is working on a process to update and revise the Capacity Development Strategy. The SFY19 Annual Capacity Development Report was submitted to EPA in September 2019.

American Iron and Steel

All loan agreements issued in SFY19 for construction projects included the AIS requirement that funds made available to the borrower shall not be used for a project for the construction, alteration, maintenance, or repair of a public water system unless all of the iron and steel products used in the project are produced in the United States. This requirement applied to the entire project receiving a loan agreement that was fully signed on and thereafter the effective date of January 17, 2014, unless approved engineering plans and specifications by a State agency were completed prior to the enactment date of December 16, 2014.

During SFY19, SRF Program project managers continued to answer AIS questions from borrowers and consultants and consulted with EPA when needed. During project site visits, compliance with AIS requirements was also emphasized.

Davis-Bacon Act

Davis-Bacon Act prevailing wage rates are required on all treatment works projects funded in whole or in part by the ADWF. Davis-Bacon applies to construction contracts over \$2,000 and subcontractors, regardless of the subcontract amount.

During SFY19, the SRF Program confirmed, to the best of its ability, that the correct wage determinations were being included in the bid specifications and/or construction contracts. SRF staff also provided assistance recipients with the specific EPA Davis-Bacon contract language that was to be included in bid specifications and/or contracts. In addition, SRF staff collected certifications of Davis-Bacon compliance from assistance recipients.

Reporting

Federal Funding Accountability Transparency Act (FFATA)

FFATA information is entered upon completion of the loan agreements for designated equivalency projects. The following completed loan agreements were reported to meet equivalency requirements during the SFY19 reporting period.

Loan Recipient	Project Number	Loan Agreement Amount	Loan Agreement Date	FFATA Reporting Amount
Sitka	783421-G	\$1,500,000	10/10/2018	\$1,500,000
Sitka	783531	\$17,620,000	1/16/2019	\$6,596,000
			TOTAL	\$8,096,000

Projects and Benefits Reporting (PBR)

The SRF Program reported loan and project information in the DWSRF PBR system on a quarterly basis during SFY19. Alaska has implemented a modification to LGTS that allows PBR information to be entered into LGTS in fields identical to the EPA database. This information is then exported from LGTS to the EPA database. This method of data entry automates and streamlines the data entry process into the EPA database and reduces the likelihood of transcription errors.

VII. PROGRAM CHANGES

Changes from IUP

The project list submitted with the SFY19 IUP represented the projects that might pursue ADWF financing in SFY19. Some of the listed projects were ready to proceed with ADWF financing while other projects were delayed.

Of the 51 projects on the SFY19 IUP project list, new loan agreements were completed for four projects, and amendments were completed for three existing loans. Applications are under review with loan agreements pending in SFY20 for six additional projects, and 22 AWWU projects on the SFY19 list are pending the completion of a Programmatic Financing loan agreement.

Loan Application Process: Financial Capacity Assessment

As noted in the SFY18 Annual Report, one factor that impacted the rate of loan processing was an unexpected change in the financial capacity assessment process for loan applicants. The SRF Program had successfully contracted with a single consultant to provide these services for several years; however, the consultant ended his work on the contract with no advance warning. Due to staffing needs for the SRF and Capacity Development Programs, it was determined that developing a new position would be the most efficient long term solution to complete financial analysis related tasks including preparation of SRF financial capacity assessments and capacity assessment of new water systems.

During SFY19, a new SRF staff position was created and filled to provide support for the Capacity Development Program and for loan-related financial analyses. Filling the newly created financial analyst position will allow the SRF Program to bring consistency to the financial capacity assessment process.

Disbursement

During SFY19, Alaska disbursed \$22.7 million from the SRF Program for eligible project expenditures. This amount rebounds from a relatively low disbursement of \$11.9 million during the previous fiscal year.

Year	SFY19	SFY18	SFY17	SFY16	SFY15
Disbursement Amount	\$22.7 million	\$11.9 million	\$16.6 million	\$21.7 million	\$10.9 million

The SFY18 Annual Report pointed out the economic recession in Alaska and how that may have impacted the low disbursement amount in SFY18. Although economic forecasts have predicted the end of a three-year statewide recession in Alaska, the post-recession period may be impacted by changes in the state budget to lower the deficit.

Historically, communities receiving grants from the State's Municipal Matching Grant (MMG) Program utilized SRF funds for the required grant match. No new state funding has been budgeted for the MMG Program since SFY16. Communities that may have previously relied on a combination of grants and loans to finance infrastructure improvements may plan for projects with loan funding only or may defer projects.

Quarterly Updates to the Project Priority List

In SFY19, the SRF Program began accepting project questionnaires on a year-round basis with quarterly review and scoring. This provides communities with the opportunity to submit projects on an ongoing basis as needs are identified throughout the year. The quarterly scoring and review process allows the SRF Program to develop a regular schedule for review and scoring projects.

Training and Programmatic Support

The SRF Program has a contract in place with Northbridge Environmental to provide programmatic and financial training support to the SRF Program staff. This contract allows for both on-site and online training opportunities for SRF staff. In December 2018, Northbridge provided SRF 101 training on-site for SRF Program staff in Anchorage. An LGTS user training occurred early in SFY20.

Under the same contract, Northbridge Environmental is also providing consultation services as the SRF Program initiates a Programmatic Financing approach for lending to the SRF Program's largest borrower, AWWU, and financial modeling