

**STATE OF OKLAHOMA**  
**DEPARTMENT OF ENVIRONMENTAL QUALITY**



**INTENDED USE PLAN**

**DRINKING WATER STATE REVOLVING FUND  
STATE FISCAL YEAR 2013**

**Effective 7-1-2012 through 6-30-2013**



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## I. INTRODUCTION

The Safe Drinking Water Act (SDWA) Amendments of 1996 authorized a Drinking Water State Revolving Fund (DWSRF) program to assist public water systems in financing the cost of replacement and repair of drinking water infrastructure to achieve or maintain compliance with the SDWA requirements and to protect public health. The DWSRF program will help ensure that drinking water supplies remain safe and affordable and that the systems that receive funding will be properly operated and maintained.

The SDWA places a strong emphasis on preventing contamination rather than reacting to problems. Central to this emphasis is the development of state prevention programs including source water protection, capacity development, and additional requirements for operator certification. To fund these activities, the SDWA allowed not only the creation of the loan fund but also four set-aside accounts to fund the following state activities:

1. Administration of DWSRF;
2. Small System Technical Assistance Program;
3. State Program Management; and
4. Local Assistance and other State Programs.

As required by the SDWA, the State of Oklahoma, through the Department of Environmental Quality (DEQ) is required to prepare this annual Intended Use Plan (IUP) in order to identify the set-aside programs and DWSRF loan projects that will utilize the funds available to the DWSRF. This IUP is prepared for State Fiscal Year 2013 (SFY 13) and identifies those sources and uses of available program funds. For the purpose of the DWSRF and this IUP, the fiscal year identified is the State Fiscal Year 2013, beginning July 1, 2012 and ending June 30, 2013. The capitalization grants and state matching funds to fund these activities are from prior fiscal years and the Federal Fiscal Year 2012 (FFY 12) appropriation. The DEQ will apply for the FFY 12 grant in June 2012 to ensure funding will be available on July 1<sup>st</sup>, which is the beginning date of the SFY 2013.

To ensure that the public had an opportunity to review DEQ's proposed plans for the DWSRF, a draft IUP was made available before the IUP public meeting held on June 4, 2012. To ensure that interested parties were made aware of the public meeting date, DEQ posted notice on the DEQ web-site and distributed announcements to a mailing list of public water systems, state and federal agencies, environmental organizations, public health officials, consulting engineers, financial consultants, and interested citizens. The public comment period remained open until July 5, 2012.

As a result of federal appropriations to the State, the DEQ has received federal capitalization grants totaling \$207,048,000 from FFY 97 thru FFY 11. Oklahoma DEQ will apply for the FFY 12 Capitalization Grant in the estimated amount of \$11,151,000. This IUP includes the total funds received from principal repayments and interest earnings, state match, capitalization grants less set-asides, and leveraged revenue bond funds. These federal and state funds will be utilized by the DEQ in accordance with the purposes identified in this IUP. The state is required to provide 20 percent matching funds for each capitalization grant as the federal payments are received for DWSRF projects. Table 1 reports the sources of funds available to the DWSRF program and their intended uses.

Since it is possible that federal funds for loans from the FFY 13 capitalization grant and the state matching funds will not be available to obligate until SFY 14, applications from projects on the fundable portion of the DWSRF Project Priority List will be processed in the order they are received. Funds that we expect to be available during SFY 13 will be reserved for the highest

priority systems on the fundable portion of the project priority list. Any projects that are not funded during SFY 13 may be considered for funding during SFY 14.

**TABLE 1  
Sources and Uses**

<b><u>SOURCES OF FUNDS</u></b>	
Beginning July 1, 2012	
Beginning Balance (SFY 2012 Carryover)	\$0.00
<b><i>State Fiscal Year 2013 (Projected)</i></b>	
Federal Grant FFY 2012	\$ 11,151,000.00
State Match SFY 2012	\$ 2,230,200.00
Projected Bond Issue - SFY 2013	\$ 47,000,000.00
Principal Repayments	\$ 16,682,746.00
Release of 2003 and 2004 Bond Reserve Funds	\$ 3,558,206.00
Interest Earnings on Loans	\$ 12,804,627.00
Interest Earnings on Account	\$ 594,606.00
Interest Earnings on DWSRF Funds (Account)	\$ 50,000.00
Interest Earnings on 2003 Bond Reserves	\$ 1,535,649.00
Interest Earnings on 2004 Bond Reserves	\$ 1,206,581.00
Interest Earnings on 2012 Bond Proceeds	\$ 28,333.00
<b>Sub Total</b>	<b>\$ 96,841,948.00</b>
<b>Total Sources of Funds</b>	<b>\$ 96,841,948.00</b>
<b><u>USES OF FUNDS</u></b>	
<b><i>Expected DWSRF Loan Commitments for SFY 2013</i></b>	
Small System Binding Commitments	\$ 33,624,119.00
Large System Binding Commitments	\$ 29,100,000.00
<b>Sub Total</b>	<b>\$ 62,724,119.00</b>
<b><i>DWSRF Set-Aside Programs for SFY 2013</i></b>	
Administration	\$ 446,040.00
Small System Technical Assistance	\$ 223,020.00
Program Management	\$ 1,115,100.00
Local Assistance - Wellhead Protection (\$557,550)	\$ 1,672,650.00
- Capacity Development (\$1,115,100)	
<b>Sub Total</b>	<b>\$ 3,456,810.00</b>
<b><i>Revenue Bond Issuance</i></b>	
Debt Service on 2003 Bonds	\$ 10,045,690.00
Debt Service on 2004 Bonds	\$ 6,837,279.00
Debt Service on 2010 Bonds	\$ 6,657,481.00
Debt Service on 2011 Bonds	\$ 3,888,481.00
Debt Service on 2012 Bonds	\$ 3,500,000.00
<b>Sub Total</b>	<b>\$ 30,928,931.00</b>
<b>Total Uses of Funds</b>	<b>\$ 97,109,860.00</b>
<b>Additional Funds Needed</b>	<b>\$ (267,912.00)</b>

## **A. New 2013 Requirements**

Beginning with the FFY 10 Appropriations Bill, four (4) new requirements were mandated and fully implemented in the Oklahoma DWSRF program as follows:

1. Green Project Reserve (GPR)
2. Additional Subsidies
3. Davis-Bacon Wage Rates
4. Reporting Requirements

The Green Project Reserve mandate was removed in the FFY 2012 appropriation and the DWSRF program is no longer required to meet the 20% requirement. Beginning September 1, 2012, the DWSRF program will no longer accept new applications for green projects. The DWSRF will continue to provide subsidies for those applications that are received prior to September 1, 2012, and approved for eligible green projects through June 30, 2013 or as long as funds are available.

This subsidization requirement changed for the FFY 12 capitalization grant to state that at least 20%, but no more than 30% of the capitalization grant must be utilized as additional subsidies. Subsidization will be given as principal forgiveness for projects that regionalize or consolidate water systems and to green projects that meet the September 1, 2012, deadline and other requirements.

Furthermore, the "Procedures for Implementing the Fiscal Year 2012 Full-Year Continuing Appropriation Act Affecting the Clean Water and Safe Drinking Water State Revolving Fund Programs" and associated requirements will be incorporated into the Oklahoma DWSRF program. It is the intent of the Oklahoma DWSRF program to consistently comply with all requirements as stipulated in each year's grant agreement for the capitalization grant. As of the writing of this document, no new additional requirements are anticipated. However, procedural changes and reporting requirements may be modified by EPA. These changes will be incorporated into the Oklahoma DWSRF program, as necessary.

## **II. LIST OF PROGRAMS**

### **A. Set-aside Programs**

Section 1452 (g) and Section 1452 (k) of the SDWA authorizes set-asides to enable states to implement the requirements of the SDWA. The set-asides are based on a percentage of the capitalization grant as specified in the SDWA. The DEQ will reserve the following amounts in the 2012 capitalization grant for set-asides as follows: 4 percent for Administration; 2 percent for Small System Technical Assistance; 10 percent for Program Management; 15 percent for Local Assistance and other State Programs of which DEQ expects to use 5 percent for wellhead protection activities and 10 percent for the Capacity Development Program. DEQ will provide work plans for each set-aside to EPA describing how the specified FFY 2012 capitalization grant funds are to be expended during SFY 13.

Table 2 shows DWSRF Set-aside activities for SFY 13.

**TABLE 2**  
**DWSRF Set-aside Activities**  
**SFY 2013**

Set-aside category	Total amount reserved from 2012 grant	Reclaimed credit from old grants	Cumulative amount to be specified in workplans
Admin.	\$ 446,040.00	\$ -	\$ 446,040.00
Tech. Asst.	\$ 223,020.00	\$ -	\$ 223,020.00
St. Prg. Mgt.	\$ 1,115,100.00	\$ -	\$ 1,115,100.00
Local Assist.	\$ 1,672,650.00	N/A	\$ 1,672,650.00
Total	\$ 3,456,810.00	\$ -	\$ 3,456,810.00

### 1. DWSRF Administration

Section 1452(g) of the SDWA authorizes states to provide funding for the DWSRF Administration as a set-aside activity. The administration of the fund will be accomplished by DEQ personnel and through an interagency agreement with the Oklahoma Water Resources Board (OWRB). Administrative tasks include portfolio management; debt issuance; DWSRF program costs; support services; and financial, management, and legal consulting fees.

Title 82 of Oklahoma Statutes, Section 1085.71 through 1085.84A establishes the DWSRF program duties of OWRB and DEQ. The interagency agreement between OWRB and DEQ specifies the responsibilities of each agency in regard to the following tasks: DWSRF capitalization grant application and management; annual joint report to the Governor and Legislature; annual report to EPA; preliminary loan applications; final loan applications; letters of binding commitment to loan applicants; bidding and contract documents; loan closings; change orders and other related construction documents; inspections of projects, books, and records; payments; loan terminations; and the return of funds.

As allowed by the SDWA, DEQ reserved and specified an amount equal to 4 percent of the FFY 2012 capitalization grant for administrative support of the DWSRF. DEQ and OWRB will use an estimated amount of \$446,040 from set-aside funds for SFY 13 DWSRF administration. This set-aside is to fund activities that implement, administer, and operate the DWSRF program during SFY 13.

In addition to set-aside funds, the Drinking Water Treatment Loan Administration Fund can be utilized by DEQ and OWRB for additional administrative expenses. This fund is a statutory account outside DWSRF and is funded through fees applied to each loan. At the end of SFY 13, it is projected that approximately \$2,713,576 will be available. Table 4 shows accumulated amounts of available funds from SFY 1997 through SFY 2012 and the projected amount for SFY 13. Additional information concerning this fund is located in Section IV.B. of this report.

### 2. Small System Technical Assistance

Section 1452(g)(2)(D) of the SDWA authorizes states to provide funding for technical assistance to public water systems serving a population of 10,000 or fewer. The DEQ staff will provide technical assistance and compliance determinations for small systems to assist with compliance of the SDWA.



Small water systems will be provided technical assistance to improve treatment and capacity to operate surface water systems, to improve compliance with drinking water standards, comply with monitoring and reporting requirements, to improve the quality of service to customers, and the quality of water system management, and to increase the knowledge of board members in efficient water system operation.

As allowed by the SDWA, DEQ reserved and specified an amount equal to 2 percent of the FFY 12 capitalization grant to fund small system technical assistance activities for SFY 13. DEQ will use an estimated amount of \$223,020 from set-aside funds for SFY 13.

### 3. State Program Management

Section 1452(g)(2) of the SDWA, authorizes states to provide funding to finance State Program Management (SPM) requirements. These requirements are to provide technical assistance to small water systems, to provide technical assistance through source water protection programs, to develop and implement the Capacity Development Strategy, to provide Long Term 1 Enhanced Surface Water Treatment Rule assistance, and to provide Disinfectant/Disinfection By-products Rule assistance. DEQ personnel will accomplish these tasks.

As allowed by the SDWA, DEQ reserved and specified an amount equal 10 percent of the FFY 12 capitalization grant for state program management. DEQ will use \$1,115,100 from set-aside funds for SFY 13 public water supply state program management.

DWSRF set-aside funds cannot be used to reduce the existing state funds supporting the program. EPA allows the use of the FFY 93 PWS State overmatch and PWSS match for the PWSS program to be used to meet the 1:1 state match for the SPM set-aside. However, the rule requires that at least 50 percent of the funds for the match come from the current year. Table 3 shows the FFY 93 and FFY 12 state funds which can be utilized for the state match to the SPM set-aside. As shown, \$4,563,930 is available in state overmatch funds to serve as the SPM set-aside match. The amount requested for the SPM set-aside this year is \$1,115,100. Therefore, the state match can be met entirely by funds from the current year.

**TABLE 3  
Program Management State Match**

FFY	State General Revenue	PWS Fees	Operator Certification	Federal Grant	Total PWSS Funds	Total State Match	25% State Match	Amount Overmatch
FY 93	\$ 859,000	\$ 1,054,041	\$ 135,000	\$ 827,700	\$ 2,875,741	\$ 2,048,041	\$ 275,900	\$ 1,772,141
FY 11	\$ 3,109,121	\$ 1,328,177	\$ 588,865	\$ 1,386,700	\$ 6,412,863	\$ 5,026,163	\$ 462,233	\$ 4,563,930
			FFY 1993	FFY 2012				
PWSS grant			\$ 827,700	\$ 1,386,700				
PWSS State Match			\$ 275,900	\$ 462,233				
PWSS State Overmatch			\$ 1,772,141	\$ 4,563,930				
Current Year SPM Set-aside				\$ 1,115,100				
Current Year Credit				\$ 1,115,100				

#### **4. Local Assistance and other State Programs**

Section 1452(k) of the SDWA authorizes states to provide funding for Local Assistance and other State Programs. The Local Assistance and other State Programs Set-aside funds will be used to establish and implement wellhead protection programs as allowed under Section 1452(k)(1)(D) of the SDWA.

The DEQ has completed over 1100 Source Water Assessment and Protection plans for drinking water suppliers in the State. The plans define the areas of concern around either drinking water wells and or surface water sources, determine the potential sources of contamination within those areas, and complete a susceptibility analysis for each source and system. At this point, DEQ has completed a susceptibility analysis for each source and system. DEQ field staff provides the interface with local teams to revise and modify the SWAP reports.

As allowed by the SDWA, DEQ reserved and specified an amount equal to 15 percent of the FFY 12 capitalization grant for Local Assistance and other State Programs. DEQ will use an estimated amount of \$1,672,650 from set-aside funds for SFY 13. DEQ expects to use 5 percent of these funds for local assistance and wellhead protection activities and 10 percent for capacity development.

#### **B. Drinking Water State Revolving Fund Projects**

##### **1. DWSRF Project Priority System**

DEQ has established the Project Priority System, included as Appendix A, and prepared the comprehensive Project Priority List, included as Appendix B. The comprehensive Project Priority List demonstrates which eligible drinking water projects are to receive loan funds from the DWSRF. The comprehensive Project Priority List is comprised of a Funding List and a Contingency List that ranks projects according to the DWSRF Project Priority System that:

- a. Address the most serious risk to human health;
- b. Are necessary to ensure compliance with the requirements of the SDWA; and
- c. Assist systems most in need, on a per household basis.

Eligible projects proposed by applicants requesting funding from the DWSRF are ranked and prioritized according to the Project Priority System procedures. The project with the most points shall be first on the Project Priority List; the project with the least points shall be last. The specific categories of source, treatment, storage, and distribution are not ranked separately. Projects will be funded in order of priority as each project meets the program requirements. A project may be bypassed if it is not on schedule. Bypassed projects will be monitored and encouraged to meet program requirements so that they may be reinstated to the fundable portion of the list.

##### **2. Allocation of Funds**

Allocation of funds among the eligible projects is based on a six-step process:

1. Projects of eligible applicants that request financial assistance are ranked according to the Project Priority System and placed on the Project Priority List;
2. The financial assistance needed for each drinking water project that is ready to proceed is determined;

3. Sources of unobligated funds available to the DWSRF that are necessary to provide the requested financial assistance are identified;
4. The highest priority projects that will be ready to proceed during SFY 13 are placed on the SFY 13 Funding List, included as Appendix B;
5. Bypass letters can be issued to applicants which have projects not ready to proceed according to the Priority Ranking System procedures; and
6. The consistency with the funds available and the financial assistance requested is determined.

Information pertinent to each DWSRF project is included on the Project Priority List pursuant to the requirements of the SDWA. To be placed on the fundable portion of the list the project must be ready to proceed.

The contingency portion of the Project Priority List, included as Appendix B, is developed from the projects of applicants that are bypassed and projects of applicants that do not rank high enough to receive funding. This contingency list includes projects which may receive loan funds should projects in the fundable portion not proceed on schedule.

**3. Status of Projects on the Fundable Portion of the Priority List**

The SFY 13 Project Priority List (PPL) attached as Appendix B shows a total of fifteen (15) projects with their assigned priority points, project name, loan amount, population, project description, and anticipated binding commitment date.

**4. SRF Available Funds**

For SFY 13 there is expected to be a total of \$62,724,119 available to fund Project Priority List projects, as shown in Table 1. The total funds available for the DWSRF loan program are derived from past capitalization grants and state matching funds, FFY 12 capitalization grant and state match, principal repayments, transfer of funds from the Clean Water State Revolving Fund (CWSRF), investment income, interest income, and revenue bond issue funds.

**C. Additional Subsidization**

Capitalization Grants for the 2009 American Recovery and Reinvestment Act, FFY 10, and FFY 11 allotments required that the DWSRF program provide at least 30% of the capitalization grant funds as additional subsidies. DEQ targeted projects which were eligible under the Green Project Reserve or which would include the consolidation or regionalization of water systems. This requirement changed for the FFY 12 capitalization grant to state that at least 20%, but no more than 30% of the capitalization grant must be utilized as additional subsidies. Table 4 shows the remaining subsidy funds available for SFY 2013 projects.

**TABLE 4  
Subsidy Funds  
SFY 2013**

FFY 2010	FFY 2011	FFY 2012 Grant	Total for SFY 2013
\$3,192,000	\$3,496,000	\$2,230,200	\$8,918,200

#### **D. Green Infrastructure**

The Green Project Reserve (GPR) mandate was removed in the FFY 2012 appropriation and the DWSRF program is no longer required to meet the 20% requirement. Beginning September 1, 2012, the DWSRF program will no longer accept applications for green projects. The DWSRF will continue to provide subsidies for those applications that are received prior to September 1, 2012, and approved for eligible green projects through June 30, 2013.

Eligible projects will be pursuant to the guidance provided by EPA. For green projects it is proposed that 15% of a project's cost up to \$500,000 or the cost of the green component of the project, whichever is less, will be available in the form of principal forgiveness as permitted under the FFY 10 and FFY 11 Appropriations Acts.

The website listing the GPR projects including the evaluations or business cases is posted at <http://www.deq.state.ok.us/wqdnew/dwsrf/index.html>.

#### **E. Davis-Bacon Wage Rates**

The requirement for implementation of the Department of Labor (DOL), Davis-Bacon Prevailing Wage Rates, for DWSRF projects is a mandatory condition of the capitalization grant. Oklahoma DEQ has fully implemented this requirement by ensuring that the latest DOL wage rates for each contract of each project are established prior to bidding, that weekly payroll reports are received from the prime and sub-contractors and reviewed by the water system, that employee interviews are conducted at least twice during the contract period, that all complaints regarding the wage rate determinations are investigated and resolved.

#### **F. Sustainability Policy**

EPA finalized their Sustainability Policy on February 12, 2011. The primary direction of the policy is "...encouraging communities to develop sustainable systems that employ effective utility management practices to build and maintain the level of technical, financial and managerial capacity necessary to ensure long-term sustainability."

The Oklahoma DWSRF program maintains a strong capacity development program which includes a comprehensive review of each DWSRF applicant for technical, financial and managerial capacity. This program is the platform for a sustainability program because it already incorporates the three tiered review. Applicants are evaluated through detailed technical reviews, financial audits and managerial checklists. To qualify for a DWSRF loan, an applicant must meet a minimum debt coverage requirement of 1.25 times.

The Capacity Development program, through the use of the set-asides for State Program Management, Small System Technical Assistance and Local Assistance, expands the review of systems from the DWSRF applicants to all Oklahoma public water supply systems. An annual Capacity Development Report is provided to EPA each year, prior to September 30<sup>th</sup>, detailing all of the activities which are incorporated into the ongoing strategy for ensuring capacity development for public water supply systems. The report provides information on Oklahoma's efforts through enforcement, permitting, operator certification, source water assessment, Area-Wide Optimization Program, small system technical assistance program and the PWS Sanitary Survey program.

## **G. Reporting Requirements**

Oklahoma DWSRF provides numerous reports to EPA and other entities as required by capitalization grant agreement, or other federal and state requirements.

Oklahoma will report quarterly in the DWSRF Project Benefits Reporting (PBR) System on the use of all DWSRF funds. This information will also be included in the Annual Report. Quarterly reporting shall include use of the funds for the GPR and Additional Subsidization, as well as information on the environmental benefits of Oklahoma DWSRF assistance agreements.

Oklahoma will report annually to the Drinking Water National Information Management System (DWNIMS). Detailed reporting will include all required information related to the DWSRF capitalization grant, set-asides, leveraged funds, project and loan costs.

Oklahoma will report to the Federal Funding Accountability and Transparency Act (FFATA) database as each project loan is closed up to the amount of the capitalization grant for each year. DEQ will provide the EPA with a final listing of projects and their amounts that will be used towards the equivalency for FFATA.

## **III. DWSRF GOAL STATEMENTS**

### **A. Short-term Goals**

1. Provide fifteen (15) loans to the fifteen (15) water systems listed on the Fundable Portion of the SFY 13 Project Priority List. (Target Completion: June 2013)
2. Apply for FFY 13 capitalization grant. (Target Completion: April 2013)
3. Complete set-aside work plans specifying funds from the capitalization grant. (Target Completion: Within 90 days of grant award)
4. Use set-aside funds to update source water assessments. (Target Completion: June 2013)
5. Continue to refine the Capacity Development Program.
6. Use set-aside funds to implement Capacity Development Strategy. (Target Completion: June 2013)
7. Use set-aside funds to provide technical assistance to systems to comply with the Long Term 1 Enhanced Surface Water Treatment Rule and Disinfectant/Disinfection By-product rule. (Target Completion: June 2013)
8. Issue DWSRF Revenue Bonds in an estimated amount of \$47,000,000 to finance the additional demand for drinking water loan funds.

### **B. Long-term Goals**

1. Maintain the fiscal integrity of the DWSRF and assure a continuous enhancement of the loan fund for future generations.
2. Maintain the fund in perpetuity.
3. Assist the State in meeting the total drinking water funding needs by blending DWSRF capitalization grant and state match funds with leveraged DWSRF bond proceeds to provide long-term low-interest drinking water financing.
4. Obtain maximum capitalization of the fund for the State in the shortest time possible.

5. Use set-aside funds along with DWSRF loans to maximize compliance and public health protection.
6. Promote technical, managerial, and financial capability of all public water supply systems.
7. Encourage the consolidation and/or regionalization of small public water systems that lack the capability to operate and maintain systems in a cost-effective manner.

### **C. Environmental Results under EPA Assistance Agreements**

1. In accordance with “EPA’s Environmental Results under EPA Assistance Agreements, Order No. 5700.7”, which became effective on January 1, 2005, DEQ herein describes the outputs to be used as a measure to comply with the new requirements.
  - a. Output 1 – Provide fifteen (15) loans to the fifteen (15) water systems listed on the Fundable Portion of the SFY 13 Project Priority List (PPL). See Appendix B, for a list of projects on the PPL.
  - b. Output 2 – Enter into binding commitments with twelve (12) small systems and three (3) large systems for a total of fifteen (15) projects during SFY 13. See Appendix B, for a list of these systems and their population.
2. Environmental benefits will result from loans made and projects completed to reduce specific contaminants, create energy savings, conserve water, increase capacity to meet current water needs, replace aging infrastructure, and comply with state and federal regulations.

## **IV. FINANCING PLANS**

The type of assistance to be provided will be loans for up to 100 percent of the eligible cost of drinking water projects. DWSRF program requirements are defined in DEQ and OWRB program regulations. OWRB provides a DWSRF financing plan that maintains a pool of funds to meet the program demand. Loans at below market interest rates provide affordable financing and incentives for loan applicants to meet the program requirements. The program provides for flexibility and the perpetuity of the DWSRF.

The DEQ and OWRB provide one financing plan for both small and large systems, a long-term DWSRF loan. The long-term DWSRF loan is a 20-year loan (30-year loan for eligible disadvantaged communities) with a fixed interest rate used for the construction of drinking water infrastructure improvements. During the construction phase, interest and administration fee is paid semi-annually as funds are drawn. Once construction is completed principal, interest, and administration fee are paid semi-annually until loan is paid.

Beginning with the 2009 American Recovery and Reinvestment Act and the FFY 10 Capitalization Grant, DWSRF may grant subsidies in the form of principal forgiveness to systems. Those systems which meet the criteria for consolidation, regionalization and/or green project components may be granted principal forgiveness in accordance with the DWSRF procedures for each type of project. The total amount of subsidies given will be determined by the FFY 10, FFY 11, and FFY 12 Capitalization Grants.

The method the DWSRF uses to fund projects is to draw all of the state matching funds first, federal capitalization grants next (up to subsidy amount), bond funds, and then second round funds.

**A. DWSRF Interest Rates**

The DWSRF will provide long-term financing loans for both small and large public drinking water systems at an interest rate equal to 70% of Municipal Market Daily (MMD) AAA scale spot rates for each year through maturity plus 70 basis points, calculated ten days before loan closing, plus the administration fee.

**B. Administration Fees**

The OWRB charges an annual administration fee of 0.5 percent on the unpaid loan balance. Also, OWRB charges an administrative fee upon application filing. This fee is based on the size of the application. If the application is for \$249,000 or less the fee is \$100. If the application is for \$250,000 to \$999,000 the fee is \$250. If the application is for \$1,000,000 or more the fee is \$500. Administrative fees collected are deposited into the Drinking Water Treatment Loan Administration Fund as shown in Table 5. This fund is a statutory account outside the DWSRF and fees deposited into this fund will be used to offset the future DWSRF administrative expenses of DEQ and OWRB. It is projected that the Drinking Water Treatment Loan Administrative Fund will contain approximately \$2,713,577 as of June 30, 2013.

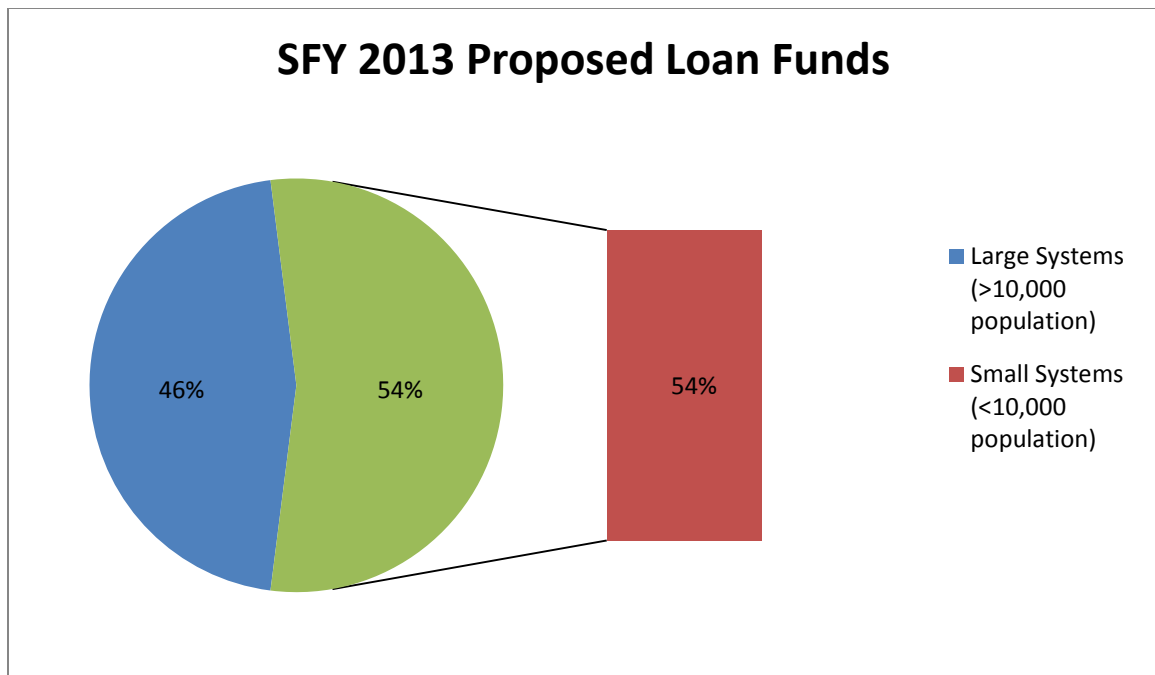
**TABLE 5  
Drinking Water Treatment Loan Administration Fund**

<b>Revenue</b>	<b>SFY1997- 2012*</b>	<b>SFY 2013</b>	<b>Total</b>
Application Fee	\$ 59,650	\$ 2,500	\$ 62,150
Administration Fee on Loans (0.5%)	\$ 9,297,338	\$ 1,800,000	\$ 11,097,338
Interest Earnings on Account	\$ 412,245	\$ 38,389	\$ 450,634
Subtotal	<u>\$ 9,769,234</u>	<u>\$ 1,840,889</u>	<u>\$ 11,610,123</u>
<b>Expenses</b>			
Administrative Costs	\$ (4,081,843)	\$ (655,000)	\$ 8,896,546
TSFR to DWSRF-write off Delaware 10		(4,159,703)	
Total	<u>\$ 5,687,391</u>	<u>\$ (2,973,814)</u>	<u>\$ 2,713,577</u>

\*Includes Projections through 6/30/2012

**C. Binding Commitments**

It is anticipated that the DEQ will enter into fifteen (15) binding commitments with twelve (12) small systems and three (3) large systems during SFY 13. The amount of funding for small systems is anticipated to be \$33,624,119 which is equal to 54 percent of the amount of funding available for projects on the fundable portion of the SFY 13 Project Priority List. This amount exceeds the requirement that at least 15 percent of loan funds be utilized for small systems. A graphical presentation of this information is presented in Exhibit 1.



**Exhibit 1 – DWSRF Proposed Loans to Small Systems SFY 2013.**

## **V. ASSURANCES AND SPECIFIC PROPOSALS**

DEQ provides the necessary assurances and certifications as a part of the Operating Agreement between the DEQ and the EPA. The DEQ/EPA Operating Agreement includes the requirements of the SDWA, as follows:

1. The State has the authority to establish a DWSRF project loan fund and to operate the DWSRF program in accordance with the SDWA.
2. The State will comply with its statutes and regulations.
3. The State has the technical capability to operate the program.
4. The State will accept capitalization grant funds in accordance with a payment schedule.
5. The State will deposit all capitalization grant funds in the DWSRF project fund or set-aside account.
6. The State will provide an amount at least equal to 20 percent of the capitalization grant (State match) in the DWSRF project fund.
7. The State will deposit interest earnings and repayments into the DWSRF project fund.
8. The State will match capitalization grant funds the State uses for 1452 (g)(2) set-asides.
9. The State will use Generally Accepted Accounting Principles.
10. The State will have the DWSRF project fund and set-aside account audited annually in accordance with General Accepted Government Auditing Standards.
11. The State will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments.
12. The State will commit and expend funds as efficiently as possible, and in an expeditious and timely manner.
13. The funds will be used in accordance with the IUP.



14. The State will provide EPA with an Annual Report.
15. The State will comply with all federal cross-cutting authorities.

The State agrees that binding commitments for DWSRF projects which receive loan funds made available from the capitalization grant will be made only after the State has conducted an environmental review according to DWSRF regulations (OAC 252:633) and a determination is executed and distributed using the EPA approved SERP.

The State agrees to submit Annual Reports to the EPA on the actual use of funds and how the State has met the goals and objectives for the previous fiscal year as identified in the IUP for the previous year.

## **VI. CRITERIA FOR PROJECT SELECTION AND DISTRIBUTION OF FUNDS**

### **A. Distribution of Funds**

The following criteria were used to develop the proposed distribution of the DWSRF funds:

1. Utilize set-asides as authorized by the SDWA.
2. Identify all possible public drinking water systems eligible to receive DWSRF assistance.
3. Identify and rank public drinking water system projects requesting financial assistance that results in compliance with SDWA requirements on the DWSRF Project Priority List.
4. Determine the readiness to proceed of each project ranked on the DWSRF Project Priority List.
5. Identify the sources and spending limits of DWSRF.
6. Allocate funds to projects ready to proceed according to the Project Priority System, Appendix B.
7. Develop a grant payment schedule that will be used to make timely binding commitments to the projects selected for DWSRF assistance. The anticipated federal DWSRF loan fund payment schedule for the FFY 97 through FFY 13 capitalization grants is included as Appendix D.
8. Develop an outlay schedule to pay project costs as incurred.

All funds in the DWSRF will be used to provide direct construction loans, long-term small community loans, or to refinance existing debt obligations of eligible applicants, when such debt obligations were incurred, and the construction commenced after July 1, 1993, and all program requirements have been met.

Provisions for project bypass, assistance deadlines, and default are addressed in the DEQ DWSRF Regulations and/or State legislation implementing the DWSRF.

Set-aside funds are used for the administration of the DWSRF program, to provide small system technical assistance, to manage the State program, to provide local assistance and fund other State programs for water systems. These activities have a direct impact on solving existing problems and preventing future problems. By implementing these programs, the costly need for infrastructure may be reduced. An example is the Small System Technical Assistance Program that provides a water system with training and assistance to operate a plant more efficiently. This will enable the water system to make operational changes to meet the new, more

stringent levels for turbidity, trihalomethane and haloacetic acid, rather than spending funds on costly construction for upgrades that may be unnecessary.

Though using set-asides may take away from the amount of grant funds to be used for loans, the long term plan is to concomitantly implement the set-aside programs with the loan program to provide the best overall assistance to water systems.

The DEQ decides each year on which programs are needed and prepares a budget for each of the programs. Based on the budgets and past history of the program, DEQ determined that 31 percent of the FFY 12 grant for set-asides is needed to fund the programs for SFY 13. DEQ will provide work plans for each set-aside to EPA describing how the specified FFY 12 capitalization grant funds are to be expended during SFY 13.

#### **B. Funds Available for DWSRF Projects**

As discussed in Section III.B.4., a total of \$62,724,119 will potentially be available during SFY 13 to fund fifteen projects listed on the PPL. There is a great need for funding drinking water infrastructure and the current demand for funds by projects that are ready to proceed will justify leveraging of funds. The Oklahoma Water Resources Board (OWRB) estimates issuing \$47,000,000 in bonds in June 2012 to meet needed funding for DWSRF projects.

#### **C. DWSRF Leveraged Bond Issue**

Similar to previous years, substantial demand for drinking water funds exceeds capitalization grants and state match amounts. The DEQ and the OWRB are proposing to issue DWSRF Revenue Bonds in an estimated amount of \$47,000,000 (subject to change) to finance the additional demand. The Revenue Bonds will be sized based on the amount of identified need, and a portion of the proceeds may include funds for the purpose of providing the state matching funds for FFY 13 capitalization grant. The Revenue Bonds may be issued in a single series, or multiple, smaller series as funds are required for eligible project costs. The series of Revenue Bonds will be issued as needed.

#### **D. Description of Financial Status of DWSRF**

During SFY 13, the funds expected to be available to the DWSRF include past capitalization grants and state matches, FFY 12 capitalization grant and state match, transfer of funds from the CWSRF, investment income, interest earnings, loan repayments, and leveraged revenue bond funds. The financial status of the DWSRF is further detailed in Table 1: DWSRF Sources and Uses.

#### **E. Development of Payment Schedule**

The total amount of loan funds and spending limits are identified in the grant payment schedule included as Appendix C. This chart shows the federal payment schedule for loan funds for FFY 12 and FFY 13 capitalization grants. This amount is summarized by quarter and the totals are shown.

All project loans scheduled for funding from the DWSRF will be reviewed for consistency with appropriate planning, design, and construction requirements. Evidence of this review and funding shall be documented in each DWSRF project file.

DEQ will use a minimum of fifteen percent (15%) of all capitalization grant amounts to provide loan assistance to small drinking water systems that serve populations less than 10,000.

To the extent Capitalization Grant funds are to be disbursed to loan recipients for direct project costs, those funds will be drawn from the EPA's Automated Clearing House (ACH). State match will be expended prior to the draw upon Capitalization Grant funds.

The FFY 12 State Match requirement will be met as part of the SFY 2012 DWSRF Bond issue.

#### **F. Development of the DWSRF Payment Schedule**

Oklahoma's projected grant payment schedule is based on the time of the capitalization grant award, expenditure of the state match, the scheduled dates for binding commitments, projected construction schedules for projects as specified for a particular bond series, and the proposed budget for set-asides.

### **VII. SAFE DRINKING WATER ACT AMENDMENT OPTIONS**

#### **A. Privately Owned Drinking Water Systems**

Although the SDWA provides for funding of privately owned drinking water systems, the DEQ has determined that funding these systems is not in compliance with the state statutes and constitution. According to Oklahoma Annotated Code Title 82 Section 1085.72 and Article 10 Paragraph 39 of the Constitution of Oklahoma, the definition of eligible entity is limited to mean "any city, town, county or the State of Oklahoma, and any rural sewer district, public trust, master conservancy district, any other political subdivision." By law, the funds established for the Drinking Water State Revolving Fund are limited to those entities, precluding any privately owned entities from receiving monies.

#### **B. Disadvantaged Communities**

The DWSRF program provides 30-year loan terms that are only available to disadvantaged communities. A "disadvantaged community" means those communities with a median household income that is less than or equal to 85% of the national median household income according to the United States Census Bureau. Further, the DWSRF project priority system provides for priority points to be given to projects that benefit disadvantaged communities. These two provisions are aimed at assisting systems most in need.

#### **C. Transfer of Funds**

Under the SDWA, the state is allowed to transfer and/or cross-collateralize fund assets of the DWSRF program and the Clean Water State Revolving Fund (CWSRF) program. Oklahoma may take advantage of funding flexibility between the Clean Water and Drinking Water SRF programs, provided by the Environmental Protection Agency, in order to assure adequate capacity to meet all funding demands. In accordance with the Safe Drinking Water Act-SRF funds transfer provisions (Section

302), the State hereby reserves the authority "to transfer an amount up to 33 percent of the [FFY 12] Drinking Water SRF program capitalization grant to the Clean Water SRF program or an equivalent amount from the Clean Water SRF program to the Drinking Water SRF program." With this IUP Oklahoma requests the ability to transfer funds as necessary between the DWSRF and CWSRF during SFY 2013. The approval of the IUP will constitute the approval of the transfer request. It is understood that fund transfers between the programs during SFY 2013 or in future years may not be available for return to the SRF fund of origin if a permanent extension of transfer authority is granted.

## **VIII. PUBLIC REVIEW AND COMMENT**

A public meeting will be conducted in compliance with the Oklahoma State Administrative Procedures Act and DWSRF regulations, on June 4, 2012. To ensure that interested parties were made aware of the public meeting date DEQ will post notice on the DEQ web-site and distribute announcements to a mailing list of public water systems, state and federal agencies, environmental organizations, public health officials, consulting engineers, financial consultants, and interested citizens. The agenda will be posted at the meeting site. A copy of this public notice is included as Appendix D. The public meeting will be held to review this IUP, the Project Priority System, and the Funding and Contingency Project Priority List. A comment period will follow the public meeting until July 5, 2012.

## **IX. AMENDMENTS TO THE PLAN**

Revisions to this plan determined to be insignificant and/or minor revisions required for administrative purposes, shall be made by the DEQ without notification to the public, and will be reported to EPA in the Annual Report. Any changes in the IUP shall be made in accordance with procedures provided in the DEQ DWSRF Regulations.