

**State of Vermont
Drinking Water State Revolving Fund**

Program Evaluation Report

**SFY 23
(7/1/2022– 6/30/2023)**

FINAL

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I. INTRODUCTION

The Drinking Water State Revolving Fund (DWSRF) program was created in 1996 to assist public water systems in financing the costs of infrastructure needed to achieve and/or maintain compliance with and protect public health objectives of the Safe Drinking Water Act (SDWA). Section 1452 of the SDWA requires EPA to conduct an Annual Review to assess the State's progress in the implementation of its DWSRF program. The ultimate objective of the Annual Review is to ensure the program is designed and operated to provide ongoing assistance for drinking water activities while achieving the intent of the SDWA Amendments.

On November 15, 2021, President Biden signed the Bipartisan Infrastructure Law (BIL), also known as the Infrastructure Investment and Jobs Act (IIJA) or 2021, (P.L. 117-58). The BIL appropriates more than \$43 billion to be administered through the existing CWSRF and DWSRF programs from federal fiscal years (FFYs) 2022 through 2026. During these fiscal years, the BIL created three annual appropriations in addition to the base DWSRF program:

- DWSRF General Supplemental,
- DWSRF Emerging Contaminants, and
- DWSRF Lead Service Line Replacement.

The BIL additionally made amendments to the SDWA Section 1452: reauthorized the DWSRF program at elevated amounts from FY 2022 through 2026, expands allowable forms of SDWA 1452(d) Disadvantaged Additional Subsidy, raises minimum SDWA 1452(d) Disadvantaged Additional Subsidy floor from 6% to 12%, made permanent the American Iron & Steel procurement requirements and added the Build America, Buy America procurement requirements.

This document, the Program Evaluation Report (PER), summarizes EPA's Annual Review of the Vermont DWSRF program for the period of SFY 2023 (7/1/2022 – 6/30/2023) and will serve as the basis for actions taken by the State and as a point of future reference for the Region. The Annual Review took place May 7th to May 9th, 2024, and was conducted in accordance with EPA's Annual Review Guidance, including a document review, discussions with state staff, and completion of nationally standardized programmatic, financial, and project file checklists.

II. PRE-ONSITE REVIEW

EPA reviewed the following documents prior to beginning the Review: Operating Agreement, Biennial Report, State Environmental Review Process (SERP), Intended Use Plan (IUP), Independent Audit Report, Drinking Water SRF Data System Reports, Single Audit Report, Set-Aside Workplans, Federal Financial Accountability and Transparency Act (FFATA) Reports, and Compass Reports. This document review provided the information necessary to answer some of the questions in the Annual Review Checklist developed by EPA Headquarters and to complete the sections below.

a. Awards to Date and Summary DWSRF Statistics

The Vermont Department of Environmental Conservation (VT DEC) received their 2022 DWSRF capitalization grant in the amount of \$7,008,000 during SFY 2023. As of June 30, 2023, EPA has awarded the Vermont Department of Environmental Conservation an amount of \$309,532,300 in DWSRF funding since the inception of the DWSRF program.

The pre-review provided EPA with a snapshot of the program's financial status, allowing EPA to determine compliance with binding commitment and small systems assistance requirements.

Key SFY 2023 and cumulative information on the program is listed in Table 2. Summary annual and cumulative statistics for Vermont’s DWSRF program..

Table 1. 2022 Vermont DWSRF Capitalization Grant Awards.

	Award Amount	Award Date
Base DWSRF Grant	\$7,008,000	8/18/2022
BIL DWSRF Supplemental Grant	\$17,992,000	8/17/2022
BIL DWSRF EC Grant	\$7,555,000	8/12/2022
BIL DWSRF LSL Grant	\$28,350,000	8/15/2022

Table 2. Summary annual and cumulative statistics for Vermont’s DWSRF program.

	SFY 2023	Cumulative as of 6/30/2023
Total State Match¹	\$3,207,577.00	\$68,530,277.00
Repayments (principal and interest)²	\$7,255,280.00	\$108,261,404.06
Interest Earnings on Investments³	\$1,949,537.00	\$5,480,817.52
Bond Proceeds⁴	N/A	N/A
Income from Fees⁵	\$149,651.00	\$8,273,171.06
Small Systems Assistance:		
Number of agreements⁶	15	473
Dollar Amount⁷	\$14,888,736.42	\$255,806,349.97
Percent of Assistance Provided⁸	76.83%	81.63%

The first binding commitment for the 2022 BIL EC grant was due October 1st, 2023 (Q1 FFY24), because VT elected to take half of the grant payments for project funds in the first two available quarters (Q1 and Q2 FFY23). The remaining half and reallocated Wyoming funds were pushed to the final quarter of availability (Q4 FFY24). VT was out of compliance with their EC Binding Commitments temporarily in (Q1 & Q2 FFY24). Within the next two quarters (Q2 & Q3 FFY24), VT met their EC binding commitment requirements and are currently back in compliance.

Similarly for the 2022 BIL LSLR grant, VT elected to take the grant payments for project funds in the first quarter of availability (Q1 of 2023), and the final two quarters of availability (Q3 & Q4 of FFY24). The first binding commitments for the 2022 BIL LSLR grant were due October 1st, 2023 (Q1 FFY24) and were not met at that time. Due to reporting issues and delays, projects that were executed during the SFY23 period were not accounted for. Since then, reporting has

¹ DWNIMS lines 34+39 and 35+40, respectively.

² DWNIMS lines 283 and 286, respectively.

³ DWNIMS lines 296 and 297, respectively.

⁴ DWNIMS lines 252 and 260, respectively.

⁵ DWNIMS lines 303 and 304, respectively.

⁶ Annual value is the sum of DWNIMS lines 144, 145 and 146. Cumulative is sum of lines 144, 145, and 146 for all years.

⁷ Annual value is the sum of DWNIMS lines 137, 138 and 139. Cumulative is sum of lines 137, 138, and 139 for all years.

⁸ Annual value is the sum of DWNIMS lines 137, 138 and 139, divided by DWNIMS line 142. Cumulative is the sum of lines 137, 138, and 139 for all years divided by line 142 summed for all years.

been updated and VT is currently in compliance with their FY22 LSLR Binding commitment requirement.

Table 3. Summary binding commitments for Vermont’s DWSRF program.

	SFY 2023	Cumulative as of 6/30/2023
Base (includes BIL Supplemental)		
Number of agreements⁹	17	497
Dollar Amount¹⁰	\$19,378,761.42	\$313,355,076.95
Amount in Excess of Required Commitments		\$34,275,471.51
BIL EC		
Number of agreements	0	4
Dollar Amount	\$0	\$1,059,222.60
Amount in Excess of Required Commitments		\$(2,337,624.40)
BIL LSL		
Number of agreements	6	17
Dollar Amount	\$616,789.00	\$2,637,539.00
Amount in Excess of Required Commitments		\$(8,530,350.00)

Of the \$307,287,300 awarded, \$232,041,788 went to projects and the remaining \$75,245,512 went to set-aside activities. A summary of set-aside obligations and balances can be found in Table 4,

⁹ NIMS lines 135 and 136, respectively.

¹⁰ NIMS lines 129 and 130, respectively.

Table 5. BIL LSL Set-Aside amounts obligated, expended, and reserved as of June 30, 2023., and Table 6. BIL EC Set-Aside amounts obligated, expended, and reserved as of June 30, 2023..

Table 4. Base and BIL General Supplemental Set-Aside amounts obligated, expended and reserved as of June 30, 2023.

	4% Admin.	2% Technical Assistance	10% State Program Management	15% Local Assistance
Amount Obligated 2023	\$1,000,000	\$500,000	\$2,500,000	\$3,750,000
Total Amount Obligated	\$10,921,650	\$4,848,459	\$25,110,889	\$26,232,208
2023 Amount Expended	\$440,745.49	\$81,709.05	\$1,046,685.90	\$1,241,485.67
Total Amount Expended	\$9,618,197.15	\$4,219,595.55	\$22,682,206.24	\$21,378,493.98
Balance as of 6/30/2023	\$1,303,452.85	\$682,863.45	\$2,428,682.76	\$4,853,714.02
Reserved Authority	\$4,002	\$579,187	\$2,027,341	N/A

Table 5. BIL LSL Set-Aside amounts obligated, expended, and reserved as of June 30, 2023.

	4% Admin.	2% Technical Assistance	10% State Program Management	15% Local Assistance
Total Amount Obligated	\$1,134,000	\$567,000	\$2,835,000	\$2,835,000
2023 Amount Expended	\$0	\$0	\$0	\$0
Total Amount Expended	\$0	\$0	\$0	\$0
Balance as of 6/30/2023	\$1,134,000	\$567,000	\$2,835,000	\$2,835,000
Reserved Authority	\$0	\$0	\$0	N/A

Table 6. BIL EC Set-Aside amounts obligated, expended, and reserved as of June 30, 2023.

	4% Admin.	2% Technical Assistance	10% State Program Management	15% Local Assistance
Total Amount Obligated	\$302,200	\$100,000	\$279,106	\$80,000
2023 Amount Expended	\$0	\$0	\$4,260.92	\$0
Total Amount Expended	\$0	\$0	\$4,260.92	\$0
Balance as of 6/30/2023	\$302,200	\$100,000	\$274,845.08	\$80,000
Reserved Authority	\$0	\$51,100	\$476,394	N/A

b. Financial Indicators¹¹

Many of the indicators are incorporated into the Government Performance and Results Act (GPRA) annual performance goals for the DWSRF program. These financial indicators are tools which help us understand and assess a State’s SRF program within our Region and are calculated using the data which the State provides in the OWSRF EPA Data System report each year.

EPA’s Office of Water released their memorandum titled “*Maximizing Water Quality and Public Health Benefits by Ensuring Expeditious and Timely Use of All State Revolving Fund Resources*”, referred to as *Timely and Expeditious Memo*, on January 31st, 2024. This memorandum establishes firm parameters with the intention of providing a clear direction in relation to timely and expeditious benchmarks needed to enhance environmental protection and public health of the Nation’s wastewater and drinking water infrastructure. The memorandum specifically notates that the Undisbursed Funds to Average Disbursements Ratio has an established exceptional rated level of under **one years’ worth of undisbursed funds**, adequate rated level of **two years’ worth of undisbursed funds** and an unacceptable rated level of **five years’ worth of undisbursed funds or greater**. The memo also reaffirms the states have a **two federal fiscal year limit** to apply for and for EPA to award the federal capitalization grants to the states. Additionally, the commitment requirement of the states allows

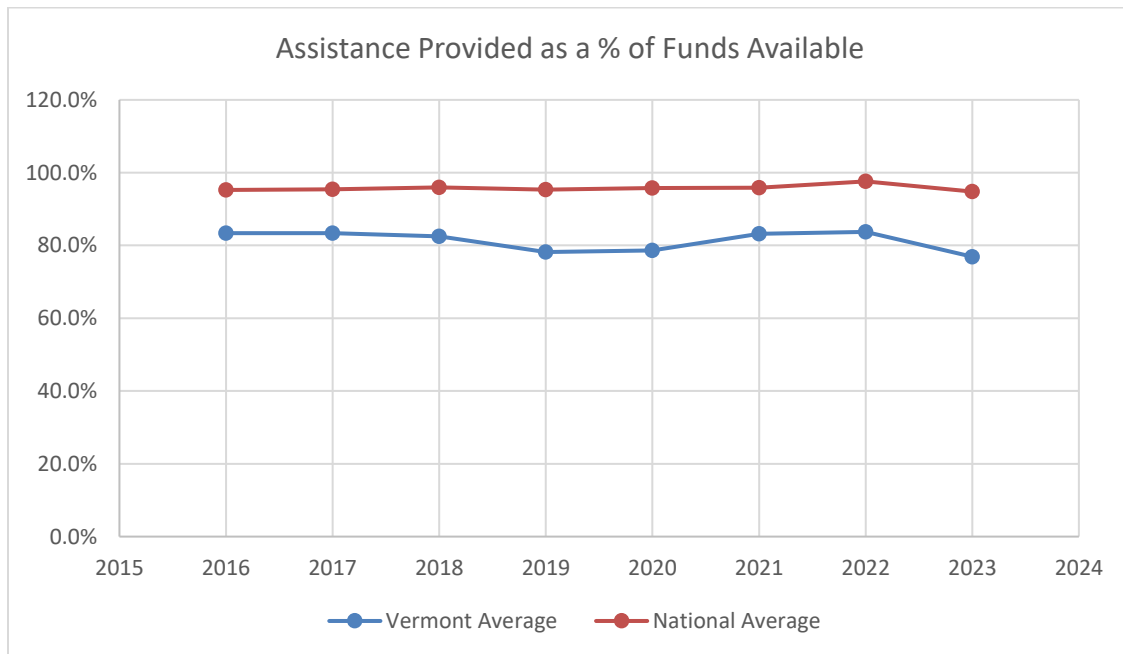
¹¹ Indicators are provided under EPA memoranda: Implementation of DWSRF Financial Indicators dated February 23, 2003, and EPA Memoranda: “Implementation of Additional SRF Financial Indicators” dated April 26, 2018.
https://usepa.sharepoint.com/sites/OW_Work/srf/SRFLibrary/Shared%20Documents/Memos/Implementation%20of%20Additional%20SRF%20Financial%20Indicators.pdf

one year from funds receipt to a signed final assistance agreement with an emphasis that this requirement applies to all funds in an SRF program, not just the federal capitalization grant funds.

It is also worth noting that the memorandum acknowledges that the influx of additional federal funding from the BIL brings short-term challenges to the states in being able to meet these firm parameters. Although the Timely and Expeditious Memo establishes benchmarks on several financial indicators, EPA Region 1 recognizes that several factors can impact indicators and are approaching the review looking at overall financial health of the program.

The **Assistance Provided as a Percent of Funds Available** indicator measures the dollar amount of executed loan agreements to the cumulative dollar amount of funds available for loans. It is one indicator which measures the **Pace** of the program, by gauging how quickly funds are made available to finance DWSRF projects. This indicator has a wide range of values and can exceed 100% for those states that have adopted an advanced loan approval approach. The advanced loan approach makes use of the lag time between the signing of loan agreements and the disbursement of monies to complete the projects. Vermont is proceeding to convert its DWSRF available funds into executed loans at a rate of 76.9%. Vermont has dropped 7 points since last year's review. Vermont has been struggling to execute larger loan agreements. They fund many small loans, but this has not helped to improve their pace. This has historically been an issue with Vermont.

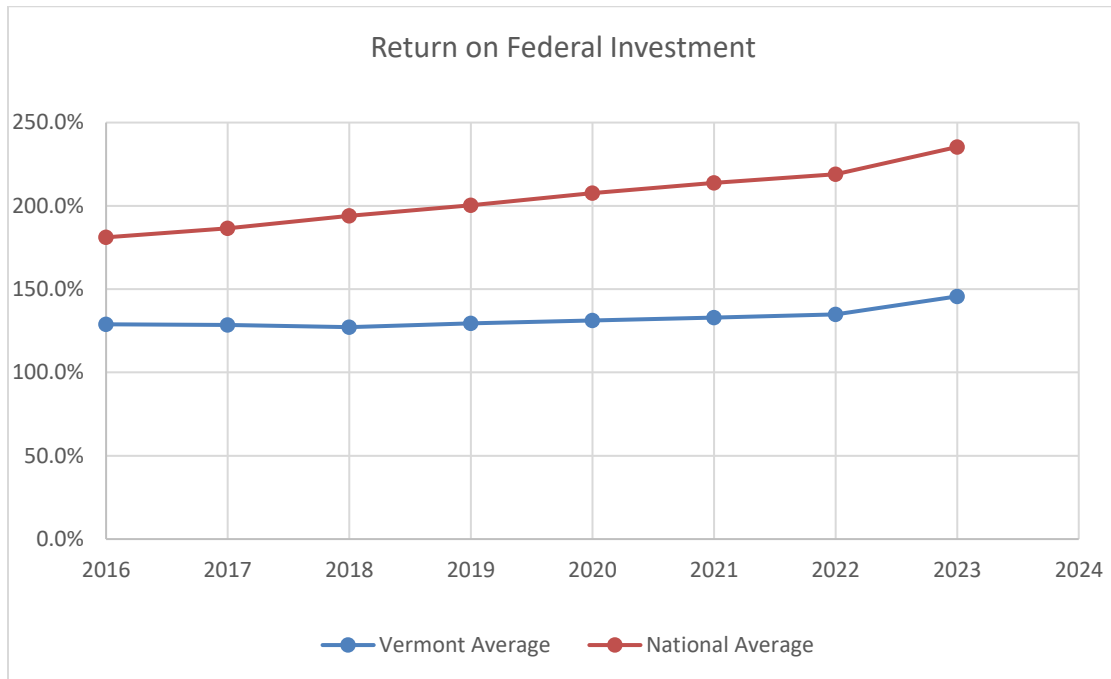
Figure 1. Assistance Provided as a % of Funds Available



Action Item: VT DEC should provide EPA Region 1 a quarterly update on the status of loan approvals for larger projects. The quarterly updates can be provided during the Monday Office hours currently established.

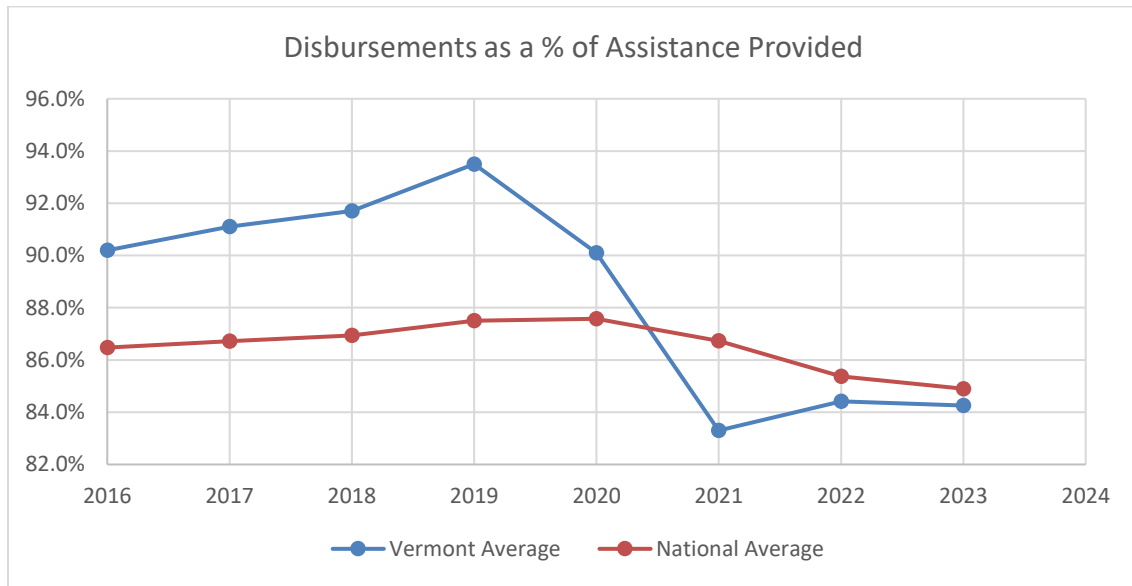
The **Return on Federal Investment** indicator shows how many dollars of assistance were disbursed to eligible borrowers for each Federal dollar spent. The State of Vermont is disbursing funds at a rate of 145.7%, which is higher than last year's rate of 134.8%. This indicates that for every federal dollar expended, approximately \$1.46 of assistance is disbursed through Vermont's DWSRF program. Vermont still lags well behind the national average of 235.3%. Vermont feels this will improve in the next cycle as larger loans are in process so more funds will be disbursed.

Figure 2. Return on Federal Investment



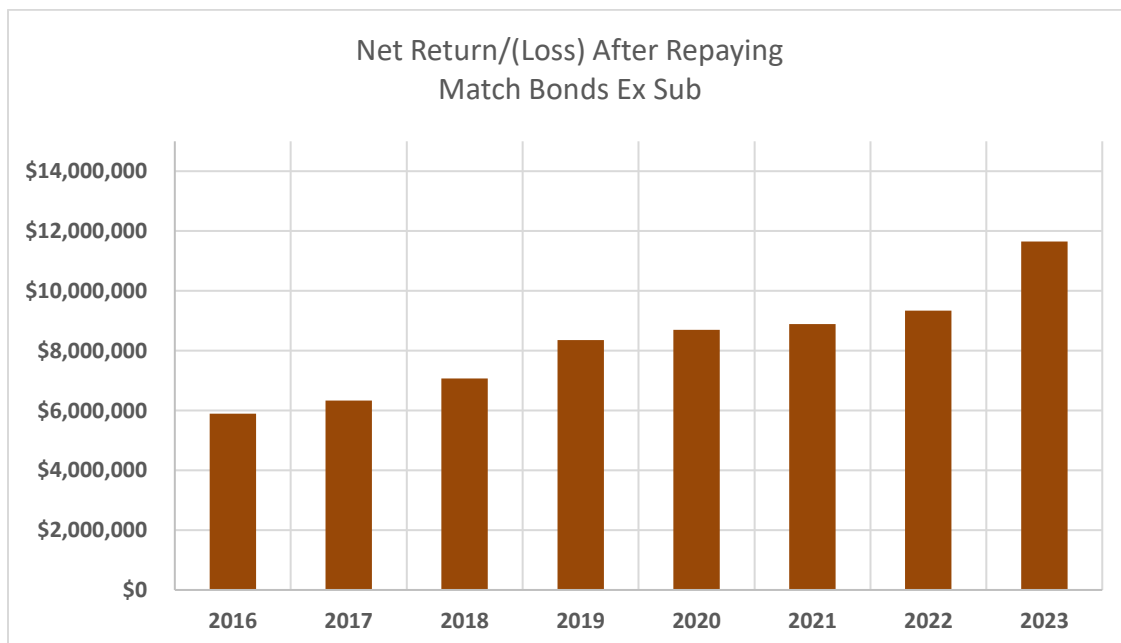
The **Disbursements as a Percent of Assistance Provided** indicator measures the *speed* at which projects are proceeding to completion. This indicator shows the relationship between loan disbursements and the amount of funding provided. This indicator has a wide range of values but should not exceed 100% as that would indicate disbursing funds in excess of the funds committed. Vermont is proceeding at a rate of 84.3%, which is comparable to the national average of 84.9%. This indicator reflects how efficient Vermont's DWSRF program is at disbursing funds to its borrowers.

Figure 3. Disbursements as a Percent of Assistance Provided



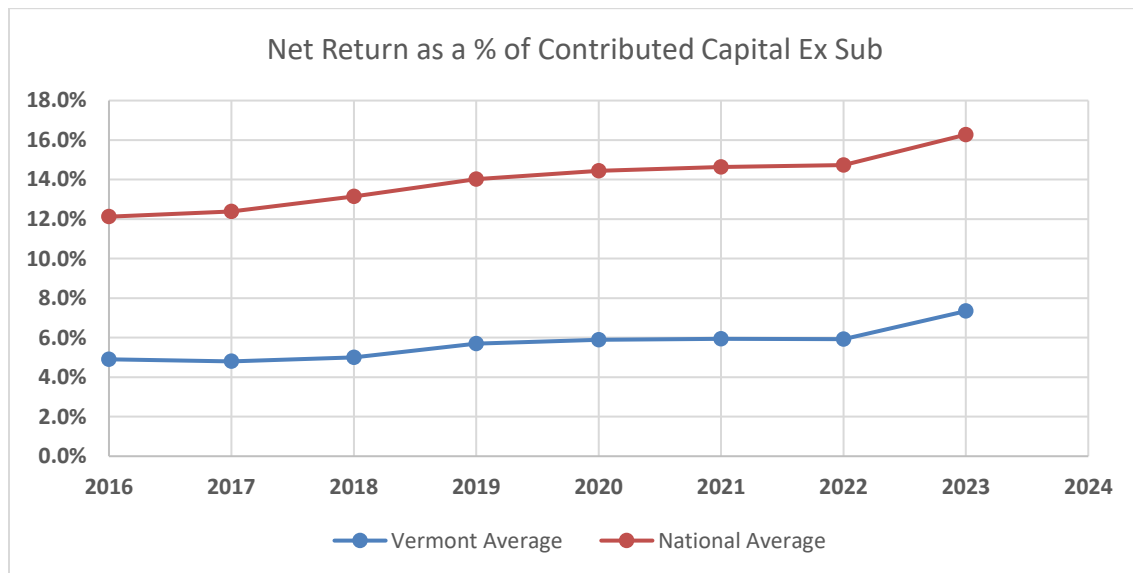
The **Net Return after Repaying Match Bonds Excluding Subsidy** indicator shows the net earnings of the DWSRF after any State Match Bonds are repaid and any Loan Principal is forgiven, thereby showing how well the DWSRF is maintaining its' invested and contributed capital. The indicator is expressed in *dollar* amounts. A positive value indicates that the revenues of the fund are meeting expenses after any state match bonds are repaid and any loan principal is forgiven. Additionally, a positive value shows that the DWSRF is maintaining its contributed capital. Conversely, a negative value indicates that expenses are exceeding revenues after any state match bonds are repaid and any loan principal is forgiven. Vermont had a net return of \$11,653,835, as of June 30, 2023.

Figure 4. Net Return after Repaying Match Bonds Excluding Subsidy



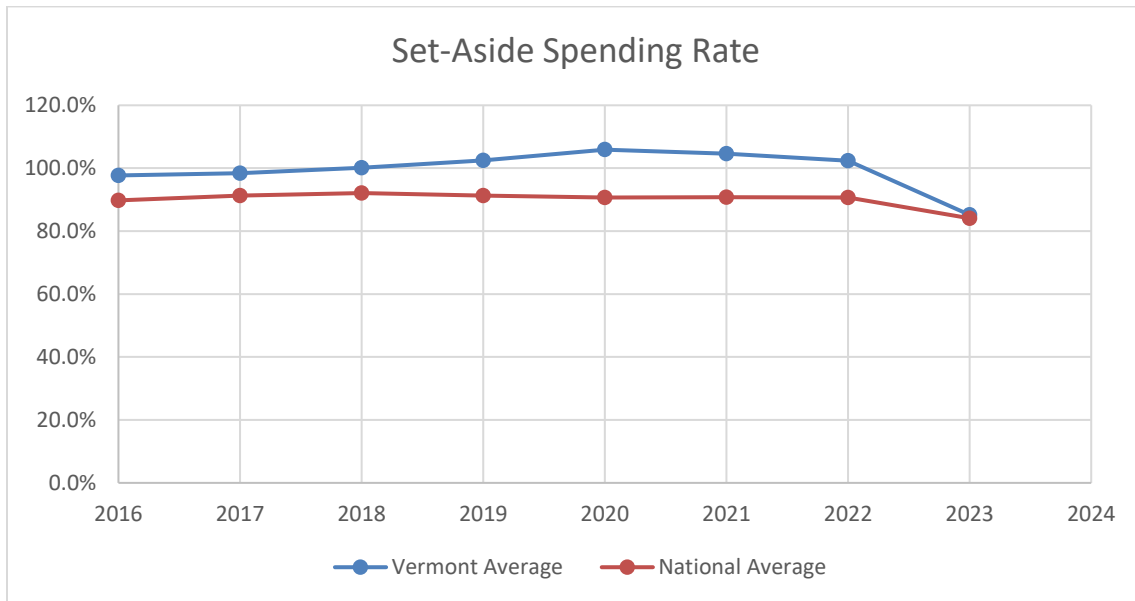
The **Net Return on Contributed Capital Excluding Subsidy** indicator is expressed as a *percentage* showing the Net Return on the invested/contributed capital after repaying any State Match Bonds and after forgiving any Loan Principal. While the previous financial indicator was expressed in dollar amounts, this financial indicator is expressed as a percentage. This indicator estimates the growth of the DWSRF relative to the investment earnings and to the Federal and State contributed capital. A positive value indicates the Fund's growth, and a negative value indicates a net loss. As of June 30, 2023, Vermont has a net return of 7.3%. This is an almost 2-point improvement from last year's rate of 5.9% however this rate is still well below the national average of 16.3%. Vermont is not a leveraged program which will impact their ability to grow their program at an accelerated rate. This indicator should get progressively better as the larger projects come to fruition.

Figure 5. Net Return on Contributed Capital Excluding Subsidy



The **Set-Aside Spending Rate** indicator depicts the pace of the state set-aside program by expressing, as a percent, the rate of expenditure of all of the money which has been placed into all of the set-aside accounts. Vermont's expenditure rate is 85.2%. This is on par with the National Average of 84.1%. From 2018 – 2022, Vermont showed a set-aside spending rate of over 100%. Since the state cannot spend more set-aside funds than what they have been awarded, this indicates an error in the reporting of this information.

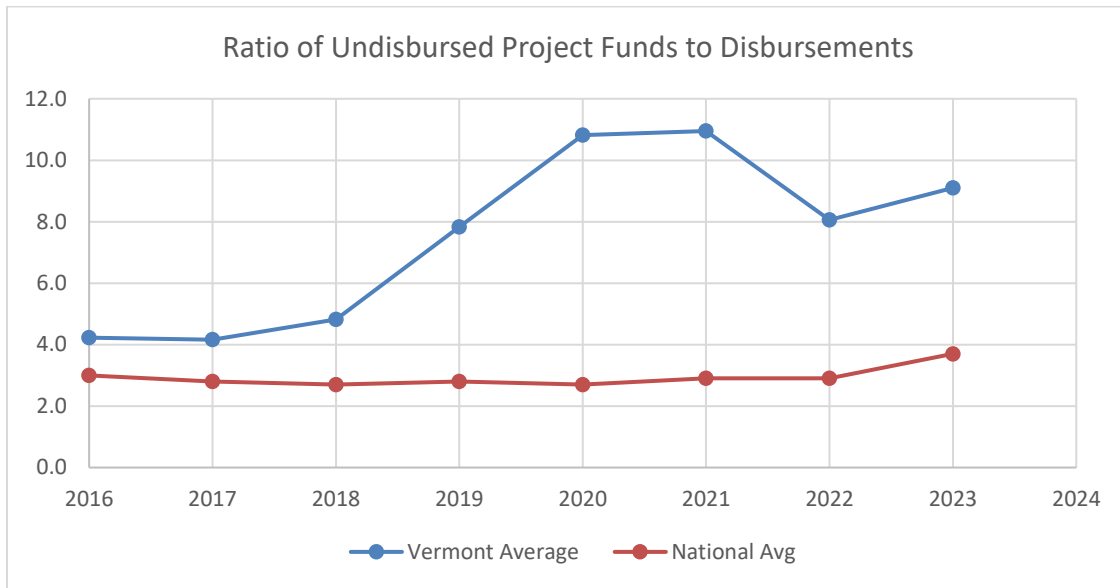
Figure 6. Set-Aside Spending Rate



Action Item: The information used to calculate Lines 116 and 119 must be adjusted as the Set-Aside Spending Rate exceeded 100% SFY 2018 - 2022. The Set-Aside Spending Rate should not exceed 100%. To resolve this, the State will need to review their Annual SRF reporting data and determine what information needs to be revised. **This is a repeat finding** from the 2021 and 2022 PERs. This finding must be resolved by *October 4th, 2024*.

The **Undisbursed Funds to Average Disbursements (Years to Disburse)** evaluates how efficiently SRF funds are revolving (and thus, balancing inflows and outflows) by examining a program's disbursement rate over a set time period and comparing it to the amount of cash on hand. The results of this measure reflect the number of years it would take to spend the cash on hand assuming the future disbursements are consistent with average annual disbursements over the past three years. This new indicator shows that Vermont has 9.1 years' worth of undisbursed cash on hand. This indicator shows Vermont is not revolving their funds as efficiently as is needed to keep a program running in perpetuity.

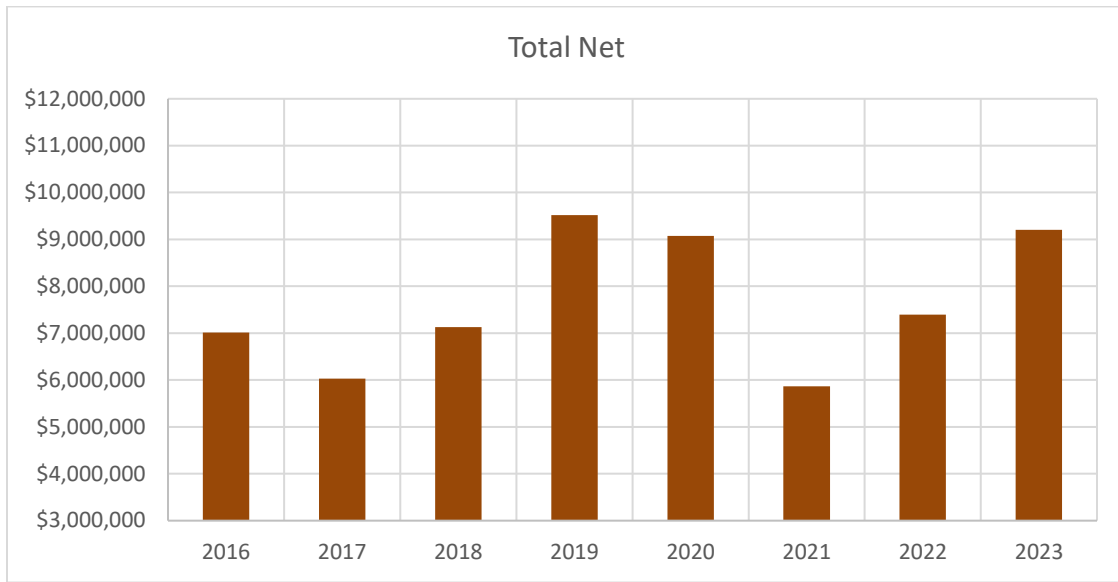
Figure 7. Undisbursed Funds to Average Disbursements (Years to Disburse)



Action Item: Develop a plan to increase the efficiency of project disbursements. The State needs to review the policies and procedures relating to the disbursement of project funds. The Undisbursed to Disbursed Funds Ratio remains significantly high, and the State will have to close the margin between the State and National Averages. We understand this will take time to be reflected however, **this is a repeat finding**, and the state should provide us with a plan on how they will achieve this by *October 31st, 2024*.

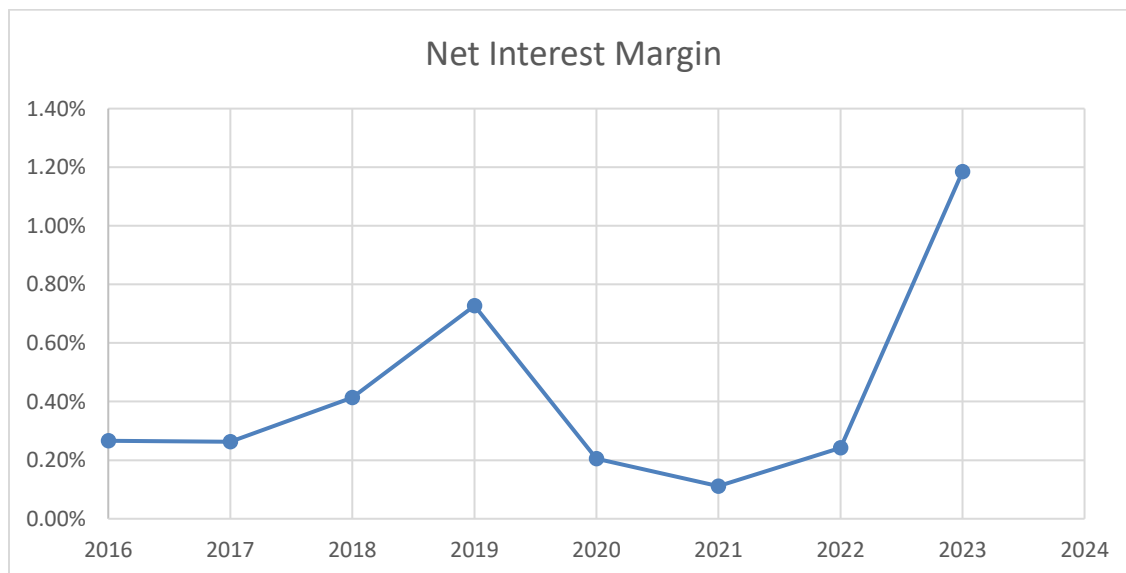
Total Net measures the extent by which internal growth is generating additional funding for new projects. It accomplishes this by taking the total cash inflows generated by ongoing loan and investment activity and subtracting out debt service payments from outstanding match and leveraged bonds. New federal capitalization grants and leveraged bond issues are also excluded from this calculation. This measure reflects the amount of new annual project funding generated solely from net repayments. Vermont's total net is \$9,204,817. Vermont is continuing to grow their program, but at a slower pace than their peer programs. This lower amount is indicative of their program needing to build up their project pipeline and execute loans that will help fund future projects, thereby improving the revolving nature of the fund as it is intended.

Figure 8. Total Net



Net Interest Margin measures the net rate of return (as a percentage) the SRF is generating from its Total Assets through loans and investments after accounting for the interest expenses associated with match and leveraged bonds. It differs from the existing Retained Earnings metric because it does not include Match Bond Principal as an expense. Vermont's net interest margin is 1.18%. This is a healthy increase from last year's rate of 0.24%. We look forward to seeing Vermont continue to improve this metric as their larger loans come to fruition.

Figure 9. Net Interest Margin

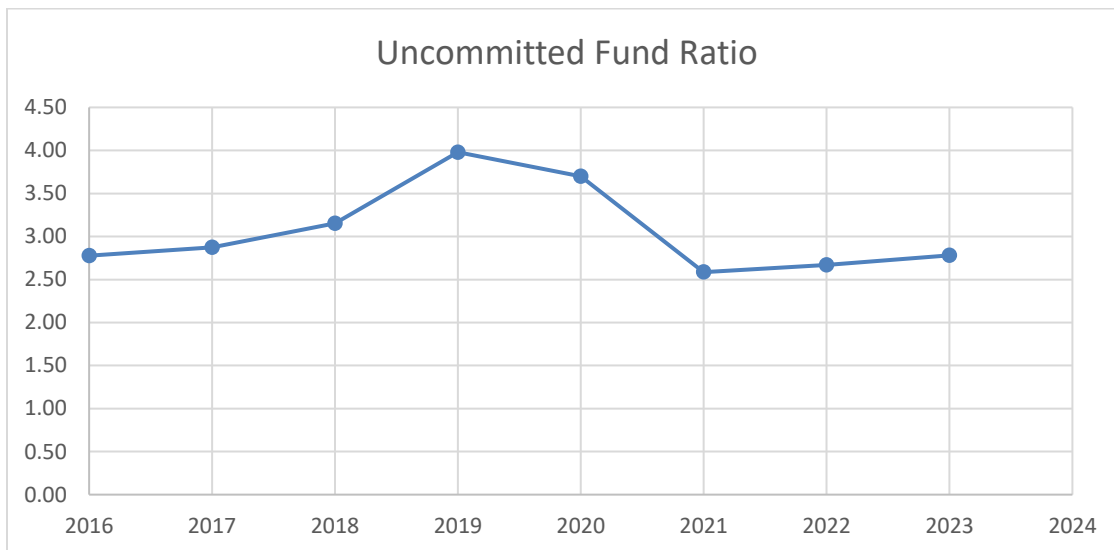


c. Uncommitted Funds

EPA Headquarters has developed a ratio to assist the EPA Regions on assessing the amount of uncommitted funds that a state has at the end of each fiscal year. Uncommitted funds include

federal and non-federal funds, repayments, state match, interest earnings, and bond proceeds (when applicable). The ratio is calculated by taking the amount of all available (uncommitted) funds at the end of the fiscal year and determining how many years it would take to draw down that amount based on the average drawdown rate over the last 3 years of disbursements. The unofficial goal is to have a ratio less than 2.0 which represents having less than 2 years of uncommitted funds. As of June 30, 2023, Vermont has an uncommitted fund ratio of 2.78.

Figure 10. Uncommitted Funds



d. Unliquidated Obligations

Unliquidated Obligations (ULOs) are funds that have been awarded or obligated to the state and have not yet been drawn down or used for their intended purposes. For the DWSRF program, this includes both funds that have been reserved for construction projects and funds that have been reserved for set-aside activities.

In an effort to reduce ULOs in the DWSRF program, EPA Headquarters developed a National ULO Reduction Strategy in April 2014. This established a goal to have all capitalization grants fully expended within two years of their award date. As of June 30, 2023, the total ULO for the Vermont DWSRF program was \$60,365,531.60, which is comprised of balances from the 2019, 2020, 2021, and 2022 capitalization grants. Details are shown in Table 7.

Table 7.

Table 7. Vermont DWSRF unliquidated obligations (ULOs) as of 6/30/23.

Capitalization Grant	Balance of Funds as of 6/30/2023		
	Total	Projects	Set-Asides
FFY 2019	\$2,178.59	\$0.00	\$2,178.59
FFY 2020	\$228,392.05	*\$0.31*	\$228,391.74
FFY 2021	\$1,386,393.67	\$0.00	\$1,386,393.67
FFY 2022	\$4,959,261.57	\$2,835,599.13	\$2,123,662.44
Total ULOs (Base)	\$6,576,225.88	\$2,835,599.44	\$3,740,626.44
Total Obligations (Base to date)	\$253,390,300	\$191,854,614	\$61,535,686
ULO percentage¹²	2.6%	1.5%	6.1%
Regional Average ULO Percentage	3.8%	3.5%	4.8%
National Average ULO Percentage	2.7%	2.0%	6.1%
FFY 2022 Supplemental	\$17,888,566.64	\$12,414,480.00	\$5,474,086.64
FFY 2022 Emerging Contaminant	\$7,550,739.08	\$6,793,694.00	\$757,045.08
FFY 2022 Lead Service Line	\$28,350,000.00	\$20,979,000.00	\$7,371,000.00
Total ULOs	\$60,365,531.60	\$43,022,773.44	\$17,342,758.16

*The \$0.31 Project ULO has been drawn as of 10/01/2023.

ULO goals were discussed during the onsite review. Part of this discussion included reducing the total number of grants being worked on, ensuring first in first out (FIFO) practices are followed, strategies to assist state staff, like drafting SOP documents, and if either the state or EPA becomes aware of any outstanding ULO's or FIFO issues, that they be addressed in a timely manner.

Action Item: Review internal policies and procedures relating to the utilization of the FIFO method in closing out older capitalization grants. Multiple draws from both project funds and set asides for the FY19, FY20, FY21 and FY22 base cap grants did not adhere to the FIFO method. Updates can be provided during the Monday Office hours currently established.

e. Financial Audit

Independent financial audits are conducted annually to determine whether SRF financial statements are presented fairly in conformity with Generally Accepted Accounting Principles (GAAP) as issued by the Governmental Accounting Standards Board (GASB). Additionally, the audit should determine if there are any weaknesses in internal controls regarding the oversight

¹² The ULO percentage is calculated by dividing the total ULO dollar amount by the total obligated funds since the inception of the program and multiplying that value by 100.

of SRF funds and if the state is in compliance with the laws, regulations, and the provisions of SRF capitalization grants.

On, December 5, 2023, as well as January 26th, 2024, CliftonLarsonAllen LLP (CLA) issued the “State of Vermont Special Environmental Revolving Fund” and “State of Vermont Report on the Audit of the Financial Statements”, respectively for the fiscal year ending June 30th, 2023, associated with the financial position, and accompanying notes to the financial statements of Vermont’s DWSRF program. The first audit report was solely an independent audit conducted of the Vermont SRF specific financial statements and the second audit report was the State of Vermont Statewide Single Audit that includes a Single Audit section for the Vermont SRF program. CLA conducted the audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Vermont DWSRF received an unmodified opinion of the financial statements for both audit reports completed by CLA. Both audits did not report any significant findings that pertain to the Vermont SRF program. In their opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of June 30, 2023.

III. FINANCIAL REVIEW

EPA Region 1 Financial Analysts thank state staff for making themselves available for interviews and meetings during the financial review. The information gathered during interviews with state staff was used to complete the Annual Review Checklist developed by EPA Headquarters. The following sections summarize document reviews and discussions that took place.

a. Transaction Testing

In accordance with the EPA’s Oversight Plan, Table 8. shows the 4 cash draws reviewed for the DWSRF program. The selected sample below reflects the statistical sample of transactions selected by OCFO during the recent federal fiscal year. EPA HQ directed those transactions be selected based on the federal fiscal year rather than the state fiscal year. Therefore, some of the transactions selected are between July 1, 2023, and September 30, 2023.

Table 8. Cash draws selected for transaction testing.

Date of Cash Draw	Amount of Cash Draw	Description of Transaction
04/12/2023	\$912,873.14	Project draw from grant #FS-99121822
09/20/2023	\$277,967.07	Admin (\$33,953.76), Program Management (\$63,901.49), & Local Assistance (\$180,111.82) Set-Asides Draw from grant #4D-99121S22
9/20/2023	\$32,004.34	Program Management Set-Aside draw from grant #4E-99121E22
9/20/2023	\$14,932.60	Project draw from grant #4L-99121L22

These transactions did not duplicate any of the transactions sampled during previous reviews and all the items appeared to be eligible under the DWSRF program. The back-up documents associated with these payment requests were reviewed in detail by the contractor to complete

the transaction testing worksheets developed by EPA Headquarters. EPA Region 1, EPA HQ and the contractor found VT DEC staff to be very cooperative in providing well-organized documentation for the draws requested and answering any questions asked.

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

b. Proportionality

The proportionality requirement will no longer apply to cash draws from capitalization grants awarded after November 18, 2022, the date of the class exception from the cash draw rules. Future SRF annual reviews will not test for the proportionality requirement based on this class exception approval. The State adopted the 100% State Match disbursement method since the FFY 2020 VT DWSRF IUP. Prior to FFY 2020, the State used the grant-by-grant method of adhering to proportionality.

c. State Match

The State deposited \$3,084,920 on 11/03/2023. The required amount for the 2023 Supplemental BIL capitalization grant of \$2,105,500, which is 10% of \$21,055,000 and a portion of the 2023 base capitalization grant of \$979,420. The State Match Payment Request into the VT DEC DWSRF Bank Account is dated 11/03/2023. The shortfall of \$27,800 for the 2023 base capitalization grant is in the process of being deposited.

Action Item: Provide the bank documentation showing the completion of the state match has been deposited by 10/7/2024.

IV. PROGRAMMATIC REVIEW

EPA Region 1 Project Officers thank state staff for making themselves available for interviews and meetings during the programmatic review. The information gathered during interviews with state staff was used to complete the Annual Review Checklist and Project File Review Checklist developed by EPA Headquarters. The following sections summarize document reviews and discussions that took place.

a. Project File Reviews

In accordance with the EPA’s Oversight Plan, Project File Review Checklists were completed for the following 6 DWSRF projects:

<i>Project Files for this Review</i>	
<i>Town of Manchester [RF3-440-3.0] Barnumville Road Water Main Replacement</i>	\$1,100,000 Loan Date: 08/02/2021
<i>Town of Marshfield [RF3-471-3.0] Waterline Replacement</i>	\$471,343.14 Loan Date: 11/15/2023
<i>Town of St. Johnsbury [RF3-450-3.0] Water Treatment Plant Improvements</i>	\$9,974,898 Loan Date: 6/12/2023
<i>Craftsbury Fire & Water District #2 [RF3-424-2.1] New Source</i>	\$729,946.32 Loan Date: 05/05/2023
<i>Town of Chester [RF3-494-1.0] Lead Service Line Inventory</i>	\$73,560 Loan Date: 03/01/2023
<i>Town of Hinesburg [RF3-496-1.0] Lead Service Line Inventory</i>	\$100,000 Loan Date: 03/01/2023

Project, construction, and administrative loan files were examined to ensure that projects are managed consistent with federal regulations and policies governing the DWSRF program. All necessary documentation was available for review by the time that EPA began the review, and no significant issues were identified for the projects reviewed.

b. Equivalency

Vermont applies equivalency to the following requirements:

- Federal Financial Accountability and Transparency Act (FFATA)

All other equivalency requirements are applied to all DWSRF projects, regardless of source of funding.

c. FFATA Reporting

FFATA applies to all federal funding awarded after October 1, 2010. FFATA requirements are considered met when loan, contract, and set-aside activity has been reported to www.fsr.gov in an amount equivalent to the capitalization grant amount taken in projects plus any set-aside funding over \$30,000 that did not go through the state procurement process. EPA thanks VT DEC for providing copies of submitted FFATA reports. Satisfied FFATA reporting amounts as of 6/30/2023 are shown in Table 9. FFATA Requirements.

Table 9. FFATA Requirements

Funding Source/Grant	Required Amount	Already Reported	Left to be Reported
2018	\$7,399,018	\$7,399,018	\$0
2019	\$7,592,760	\$7,592,760	\$0
2020	\$7,597,590	\$7,597,590	\$0
2021	\$7,803,495	\$7,803,495	\$0
2022	\$4,835,520	\$4,835,520	\$0
2022 BIL EC	\$6,793,694	\$1,609,381.60	\$5,184,312.40
2022 BIL LSL	\$20,979,000	\$613,789	\$20,365,211
2022 BIL Supplemental	\$12,414,480	\$17,500	\$12,396,980

Recommendation: EPA recommends the 2025 Annual Report contain an explanation of the reasons for the delay in the 2022 BIL FFATA Reports and provide a plan that identifies the state’s process in selecting which projects they will report for FFATA.

d. Additional Subsidy Requirements

EPA would like to commend the State on providing detailed disbursement information on additional subsidy on projects that were counted towards the 2021 and 2022 capitalization grants as of 6/30/2023. The additional subsidy should be committed in executed loan agreements by the end of the fiscal year following the appropriations year. The additional

subsidy requirement is considered met when the minimum subsidy funds have been disbursed. As of 6/30/2023, the 2022 additional subsidy requirements have not been met. See Table 10. Additional Subsidy Commitments and Disbursements for Open Grants below for more information.

Table 10. Additional Subsidy Commitments and Disbursements for Open Grants

Grant	Requirement	Committed as of 6/30/2023	Disbursed as of 6/30/2023
2018	Minimum - \$2,221,400 Maximum - \$5,553,500	OWSRF = \$4,122,155.34 2023 AR = \$3,998,597.00	\$2,489,702
2019	Minimum - \$2,861,040 Maximum - \$6,052,200	OWSRF = \$5,272,377.90 2023 AR = \$5,272,378.00	\$4,660,175
2020	Minimum - \$2,202,200 Maximum - \$5,395,390	OWSRF = \$4,223,146.76 2023 AR = \$4,806,517.00	\$729,049
2021	Minimum - \$2,200,200 Maximum - \$5,390,490	OWSRF = \$2,374,152.62 2023 AR = \$2,360,178.00	\$100,000
2022	Minimum - \$840,960 Maximum - \$2,452,800	OWSRF = \$3,646,827.54 2023 AR = \$0	\$0
2022 BIL EC	100% - \$7,555,000	OWSRF = \$850,791.32 2023 AR = \$729,946.00	\$0
2022 BIL LSL	49% - \$13,891,500	OWSRF = \$1,644,014.00 2023 AR = \$388,789.00	\$0
2022 BIL Supplemental	49% - \$8,816,080	OWSRF = \$2,147,928.00 2023 AR = \$2,147,928.00	\$0

Currently the additional subsidy amount for years 2018, 2019, 2020, 2021, 2022, 2022 BIL EC, and 2022 BIL LSLR that are reported in OWSRF differ from what is in the state's annual report. Also, the additional subsidy amount reported in OWSRF for the 2022 Base Cap grant is over the allowable maximum amount.

Action Item: Review the additional subsidy commitment amounts for 2018-2022, update the amounts in OWSRF or in the annual report, and notify EPA of any necessary corrections. Note that **this is a repeat finding** from last year. Update the commitment amounts and notify the project officer of the corrections by *11/01/2024*.

Action Item: Correct the additional subsidy commitment amount for the 2022 Base Cap grant, which is above the maximum limit, and update OWSRF. Notify the project officer of the correction by *11/01/2024*.

e. Set-Aside Summary

During SFY23, the set-aside activities followed the approved workplans that the VT DEC submitted as part of their 2022 capitalization grant application. As a reminder, the state must send copies of any new contracts funded through the set-asides to EPA Region 1.

The VT DEC DWSRF program continues to run highly successful and diverse assistance activities through their set asides. The base program has historically funded leak detection services to promote water conservation, asset management training, valve location and condition assessments, operator certification training, lead service line identification, hydrogeological investigation, underground storage tank removal, and source protection planning for their wellhead program. Currently the local assistance set aside is funding site assessments to help implement the Revised Total Coliform Rule, development of curriculum and materials for a multi-day workshop series to help public community drinking water system staff develop and implement an Asset Management Program, and the securing of above ground fuel tanks in flood-prone Mobile Home Parks. Technical assistance set aside funding is funding Vermont's Archeological Consulting Program and level 1 and level 2 assessments for transient non community water systems.

The General Supplemental set asides have helped VT expand their current activities and have helped fund new activities as well. Some of these activities include water loss control workshops, cyber security training, asset management for their capacity program, increased disadvantaged community engagement, distribution asset inventory evaluations, development of risk and life cycle cost reduction measures, a water rates media campaign, fire district feasibility studies, water rates training, drinking water education program, Water Planning Loan Program (LAWPL), and groundwater monitoring program.

The Emerging Contaminant set asides have given VT DEC the ability to fund a cyanotoxin Monitoring Program, PFAS Treatment Efficacy studies, wellhead assistance programs related to emerging contaminants, as well as a technical assistance program focused on PFAS and cyanotoxin vulnerability.

The Lead Service Line Inventory set asides have allowed VT DEC to fund robust assistance programs. The local assistance set aside funds small system service line inventory development, the purchasing of data collection equipment for communities, and training on lead for water system staff. The technical assistance set aside funds these activities as well as a Loan Application assistance program for disadvantaged communities to access LSL funding. To date the VT DEC DWSRF program has been able to support 77.8% of all Vermont Community and NTNC systems with their lead service line inventories.

In addition to the many vital programs funded by the state's set asides, are the state staff of VTDEC that oversee and run the program. Without these set asides, the dedicated staff of VTDEC would be unable to administer their program.

f. Justice40

In January 2021, Executive Order 14008 – Tackling the Climate Crisis at Home and Abroad announced Justice40, which mandates that at least 40% of the benefits of certain federal programs must flow to disadvantaged communities. In July 2021, EPA received Interim Guidance to support implementation of Justice40. This guidance included six EPA programs as part of the Justice40 pilot including the DWSRF. Table 11. Hardship or Disadvantaged Community Funding below provides the reported number and dollar amount of assistance agreements that went to disadvantaged communities.

Table 11. Hardship or Disadvantaged Community Funding

	SFY 2023	Cumulative as of 6/30/2023
<i>Number of Agreements</i> ¹³	0	246
<i>Dollar Amount</i> ¹⁴	\$58,834.30	\$153,187,642.82
<i>Additional Subsidy Dollar Amount Provided</i> ¹⁵	\$0	\$67,662,931.19

Action Item: Update OWSRF & NIMS data during the 2024 open period to reflect the funding and additional subsidy given to hardship communities or provide an explanation for the figures in SFY2023. The 2024 NIMS open period ends *10/04/2024*.

g. Climate Resiliency

The EPA would like to commend the state of Vermont for incorporating climate resiliency aspects into its program. Most notable in the state’s project priority ranking system, projects that have backups and redundant measures receive more points, as well as projects that incorporate energy reduction into their plans.

Additionally, the EPA would like to commend the state for their fair and equal application of the Federal Flood Risk Management Standard (FFRMS). The FFRMS is applied across the board in Vermont’s DWSRF program, but the state requirement allows the towns applying additional flexibility. Towns are allowed to choose any of the approved FFRMS standards.

h. Capitalization Grant Closeouts

Since the inception of the DWSRF, Vermont has been awarded an annual capitalization grant. There are several requirements that need to be met before a capitalization grant can be closed out: FFATA reporting, additional subsidy commitment, full grant drawdown and the submission of a completed Final Financial Status Report (FFSR). EPA is making an effort to work with states to formally close the grants where all funds have been drawn and all requirements for each grant has been met.

¹³ NIMS lines 187 and 188, respectively.

¹⁴ NIMS lines 185 and 186, respectively.

¹⁵ OWSRF Assistance Agreement Report for disadvantaged assistance that received additional subsidy.

Table 12. Open Capitalization Grants and Requirements Met below provides a summary of the current open Vermont DWSRF capitalization grants.

Table 12. Open Capitalization Grants and Requirements Met

Grant	FFATA Reporting	Subsidy Commitments	Grant Fully Drawn Down	Final Financial Status Report (FSR) Submitted
2018	Yes	No*	Yes	Yes
2019	Yes	No*	Yes	Yes
2020	Yes	No*	Yes	No
2021	Yes	No*	No	No
2022	Yes	No*	No	No
2022 BIL LSL	No	No*	No	No
2022 BIL EC	No	No*	No	No
2022 BIL Supplemental	No	No	No	No

*The 2018 through 2022 grants currently have conflicting additional subsidy commitment information.

EPA cannot begin the closeout process for the 2018 and 2019 grants until the additional subsidy issues are resolved. The 2020 Cap grant also requires the final financial report to be submitted before it can be closed out. For 2021 and onward, EPA will wait for the state to meet the grant requirements, fully draw down the grants, and provide closeout documentation, before closing out the grants.

i. Other Items from Programmatic Review

Vermont has taken several steps to reduce the burden of applying to the DWSRF program. The state is working with a contractor on a new grants management system that will streamline workflows and seamlessly flow into the OWSRF system. This grants management system will also create a more organized, interconnected platform for grant applications and reporting to EPA. Upon its completion the system will not only have OWSRF functionality but will also reduce the reporting burden on municipal and state staff, which will increase reporting accuracy and timeliness.

Vermont DEC consistently works with other state and federal agencies to encourage co-funding and coordination to maintain consistent requirements. We commend the state for continually committing to interagency workgroups, and workshops.

V. CONCLUSIONS

Overall, the state is implementing a well-managed and effective DWSRF program. EPA commends the VT DEC staff for working diligently to meet their commitments under the base program. The state's goals of addressing risks to public health through the development and implementation of the DWSRF Program appear to have been met while running the program in

accordance with pertinent 2 CFR Part 200 administrative requirements for grants to state and local governments.

Follow Up from Last Year's PER

Action Item 1: The information used to calculate Lines 116 and 119 must be adjusted as the Set-Aside Spending Rate exceeded 100% SFY 2018 - 2022. The Set-Aside Spending Rate should not exceed 100%. To resolve this, the State will need to review their Annual SRF reporting data and determine what information needs to be revised. **This is a repeat finding** from the 2021 and 2022 PERs.

Status: *Ongoing* - The Set-Aside Spending Rate for FY 23 is under 100% however the previous 5 years of data are still over the 100% rate. This indicates that the data that feeds into Lines 116 and 119 still need to be revised for the years 2018 - 2022. The Set-Aside Spending Rate should not be over 100%.

Deadline: October 4th, 2024

State Response: The Program is actively reviewing prior year Set-Aside values to address the excess spending rate and will follow up with Region 1 as soon as possible.

Action Item 2: Develop a plan to increase the efficiency of project disbursements. The State needs to review the policies and procedures relating to the disbursement of project funds. The Undisbursed to Disbursed Funds Ratio remains significantly high, and the State will have to close the margin between the State and National Averages.

Status: *Ongoing* - We understand this will take time to be reflected however, **this is a repeat finding**, and the state should provide us with a plan on how they will achieve this.

Deadline: November 1st, 2024.

State Response: The Program notes that disbursements have been affected by recent years with low loan activity that resulted from insufficient staffing and the availability of other federal funds, including ARPA. The Program has added two Drinking Water Project developers and was able to substantially increase loan activity in SFY 2024. This loan activity, along with anticipated strong demand for loans in SFY 2025, will positively impact the undisbursed to disbursed funds ratio.

Action Item 3: Currently the additional subsidy amount for years 2018, 2019, 2020, and 2021 that are reported in OWSRF differ from what is in the state's biennial report. Review the additional subsidy commitment amounts, update the amounts in OWSRF or in the biannual report, and notify the EPA of any necessary corrections. Note that **this is a repeat finding** from last year.

Status: *Ongoing*

Deadline: 11/01/2024

State Response: The Program has reviewed all subsidy amounts reported in OWSRF for 2018-2023 and made all necessary corrections. Current subsidy amounts and disbursement information will be included in Attachment 2 of the Annual Report.

Action Item 4: The biennial report was missing information on disbursements. In future biennial reports, the additional subsidy disbursement information must be included. In years there are no biennial report, a separate disbursement report will need to be sent to the EPA project officer. Please provide the disbursement information by *September 30th, 2023*.

Status: *Resolved*.

Action Items and Recommendations for this Year’s Review

Action Item 5: VT DEC should provide EPA Region 1 a quarterly update on the status of loan approvals for larger projects. The quarterly updates can be provided during the already established regular meetings between the state and EPA Region 1.

Action Item 6: Review internal policies and procedures relating to the utilization of the FIFO method in closing out older capitalization grants. Multiple draws from both project funds and set asides for the FY19, FY20, FY21 and FY22 base cap grants did not adhere to the FIFO method. Updates can be provided during the already established regular meetings between the state and EPA Region 1.

Action Item 7: Provide the bank documentation showing the completion of the state match has been deposited by 11/1/2024.

Recommendation 1: EPA recommends that the 2025 Annual Report contain an explanation of the reasons for the delay in the 2022 BIL FFATA Reports and provide a plan that identifies the state’s process in selecting which projects they will report for FFATA.

Action Item 8: Correct the additional subsidy commitment amount for the 2022 Base Cap grant, which is above the maximum limit, and update OWSRF. Notify the project officer of the correction by 11/01/2024.

Action Item 9: Update OWSRF & NIMS data during the 2024 open period to reflect the funding and additional subsidy given to hardship communities or provide an explanation for the figures in SFY2023. The 2024 NIMS open period ends 10/04/2024.

Recommendation 2: EPA R1 recommends utilizing the “R1 SRF EPA – State Contacts” spreadsheet, located in the “Region 1 State/EPA SRF” MS Teams Channel, to update the contact information and roles and responsibilities of staff members. In particular, the individual SRF specific responsibilities of each staff member should be clearly stated in the *responsibilities column*. There is also a space next to the *responsibilities column* that is dedicated to an organization chart, which can be used in conjunction with the contacts spreadsheet.

State Response: The Program will update the spreadsheet and appreciates the benefits of better identifying roles and responsibilities.

VI. ANNUAL REVIEW PARTICIPANTS

Table 13. List of Annual Review Participants

Name and Affiliation	Role/Responsibility	<u>Participation</u>			
		Entrance	Program Interview	Financial Interview	Exit
<u>EPA Region 1</u>					
<i>Katie Marrese</i>	Manager	X	X	X	X
<i>Carrie Garau</i>	Financial Analyst	X	X	X	X
<i>Michael Low</i>	Project Officer	X	X	X	X
<i>Noah Mohl</i>	Financial Analyst	X	X	X	X
<i>Clare O’Connor</i>	Project Officer	X	X	X	X
<i>Michael Silano</i>	Project Officer	X	X	X	X

<i>Eric Stack</i>	Project Officer	X	X	X	X
<i>Patti Stelmaszczyk</i>	Project Officer				X

VT DEC

<i>Alex Wright</i>	AID Administrator	X	X	X	X
<i>Amy Galford</i>	WID Project Manager	X	X	X	X
<i>Bob Fitch</i>	AID Financial Manager	X		X	X
<i>Chris Rottler</i>	WID Investment Coordinator	X			X
<i>Cindy Parks</i>	WID Construction Engineer	X	X		X
<i>David Pasco</i>	AID Financial Director	X		X	X
<i>Don Haddox</i>	WID Construction Engineer		X		X
<i>Emily Hackett</i>	WID Environmental Engineer		X		
<i>Eric Blatt</i>	WID Director of Engineering	X			
<i>Hugo Martinez Cazón</i>	WID Design Engineer	X			X
<i>Jason Batchelder</i>	DEC Commissioner				X
<i>Jeff Fehrs</i>	DEC Program Manager	X	X		X
<i>Katherine King</i>	WID Project Developer	X			X
<i>Katie Parrish</i>	WID Project Developer	X	X		X
<i>Kim McKee</i>	AID Division Director	X		X	X
<i>Lynnette Claudon</i>	WID Program Engineer	X	X		X
<i>Meagan Koss</i>	SRF Process Analyst				X
<i>Megan Young</i>	DWGPD Program Manager	X	X		X
<i>Mercedes Piñón</i>	AID Financial Manager	X	X	X	X
<i>Neil Kamman</i>	WID Division Director	X			X
<i>Padraic Monks</i>	WID Program Manager	X	X		X
<i>Tom Brown</i>	WID Program Lead	X			X
<i>Tracy LaFrance</i>	AID Financial Director	X			X
<i>Winn Wilson</i>	WID Environmental Engineer				X