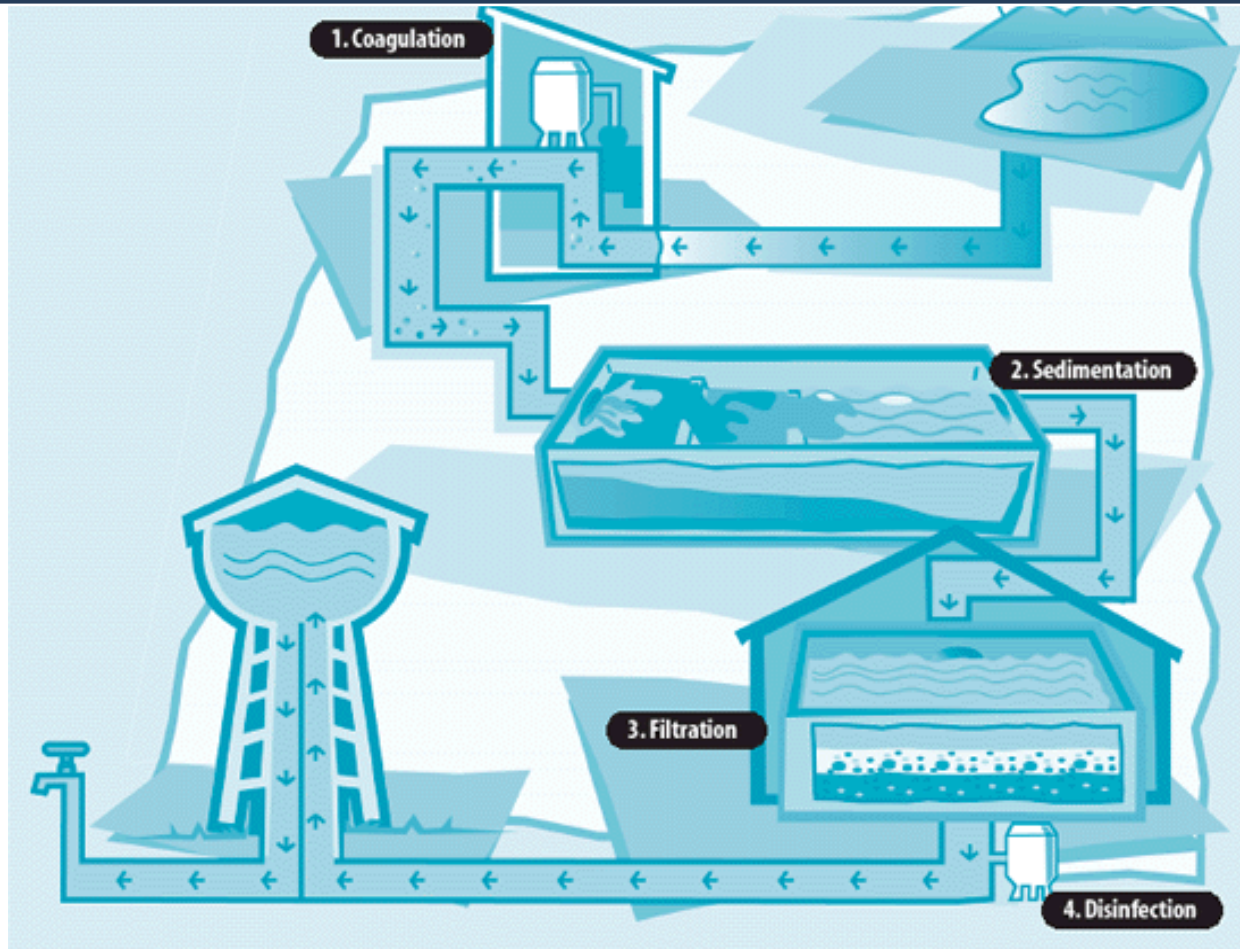




Drinking Water State Revolving Fund 2009 Annual Report



Office of Water (4606M)
[http:// www.water.epa.gov/drink](http://www.water.epa.gov/drink)
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Table of Contents

INTRODUCTION	4
AMERICA’S DRINKING WATER INFRASTRUCTURE: OVERVIEW OF NEED	5
DWSRF STRUCTURE AND PROCESS	6
PROGRAM ACCOMPLISHMENTS OVERVIEW	7
ADDITIONAL 2009 DWSRF PROGRAM DETAILS	16
Supporting Communities	14
Projects Supported	17
Set-Asides	18
Financial Indicators	23
Financial Statements	29
STATE AGENCIES	34
DWSRF AT A GLANCE	36
ANNUAL FUND ACTIVITY	37
AMERICAN RECOVERY AND REINVESTMENT ACT	38
ARRA Background Summary	38
ARRA Implementation	39

INTRODUCTION

In 1996, Congress amended the Safe Drinking Water Act (SDWA) to establish the Drinking Water State Revolving Fund (DWSRF). The goal of the DWSRF program is to provide States with a financing mechanism for ensuring safe drinking water to the public. States can use federal capitalization grant money to set up an infrastructure funding account from which financial assistance, mainly as loans, is made available to public water systems. Loans made under the DWSRF program normally have interest rates between zero percent and market rate and repayment terms of up to 20 years. Loan repayments to a state revolving fund are a continuing source of funding for future projects. The program places an emphasis on small and disadvantaged communities and on programs that emphasize prevention (e.g., capacity development, operator certification, source water protection) as a tool for ensuring safe drinking water.

2009 was a year of challenge and accomplishment for the DWSRF. The American Recovery and Reinvestment Act of 2009 (ARRA) directed a special supplemental appropriation of \$2 billion to the DWSRF to create and save jobs while addressing urgently-needed drinking water infrastructure investment needs. ARRA recognized the exceptional record of the DWSRF program as a vehicle for accomplishing effective drinking water infrastructure investment and called upon the program to meet new and urgent challenges.

ARRA created a number of important special conditions for these \$2 billion in funds. States were required to provide at

least 50 percent of the funds as subsidy in the form of principal forgiveness, negative interest loans or grants. Furthermore, at least 20 percent of each State's ARRA allotment was to be directed to "green projects," including green infrastructure, energy or water efficiency, and environmentally innovative activities. Most significantly, the statute required that all ARRA funds be secured within projects that would be under construction or under contract for construction by February 17, 2010, one year after ARRA's enactment. Unlike the base program, States were not required to provide the standard 20 percent match.

In addition to the conditions listed above, ARRA also contained requirements concerning project materials and wage rates. The statute mandated that all iron, steel and manufactured goods used in projects funded by ARRA be made in the United States (or that they qualify for a waiver of this requirement). It also required that ARRA projects comply with Davis-Bacon prevailing wage rate regulations.

Collectively, this suite of conditions presented an exceptional challenge to EPA and its State partners: to successfully develop and implement guidance and procedures to implement the special requirements while ensuring that the funding reached priority "shovel ready" projects by February 17, 2010.

This report incorporates data from both the DWSRF base and the ARRA programs. Additional information specific to ARRA can be found starting on page 39.



AMERICA'S DRINKING WATER INFRASTRUCTURE: OVERVIEW OF NEED

The need for investment, upgrade and improvement in the nation's drinking water infrastructure has been well documented and the existence of a large backlog of "shovel ready" projects made drinking water infrastructure a logical focus of ARRA. The 2007 Drinking Water Infrastructure Needs Survey and Assessment (DWINSA) estimated the national drinking water infrastructure need for the twenty year period 2007-2026 at \$334.8 billion (\$16.74 billion annually), a nearly 70 percent increase over the 1999 estimate of \$198.2 billion (in 2007 dollars). About 60 percent of this infrastructure need is associated with pipe replacement, 22 percent with treatment and the remaining with storage, source and other needs. The 2002 Clean Water and

Drinking Water Infrastructure Gap Analysis estimated the combined national need for pipe replacement alone at \$12 billion annually by the year 2040.



DWSRF STRUCTURE AND PROCESS

The base DWSRF program provides project financing assistance to community water systems (CWSs) and not-for-profit non-community water systems. Assistance generally takes the form of below market rate loans, although States have the option of providing some principal forgiveness or negative interest loans to communities they consider to be disadvantaged. The DWSRF is a partnership between EPA and States and consists of independent revolving loan funds in all 50 States and Puerto Rico. These State DWSRFs are funded primarily through annual federal grants, state matching funds, loan repayments and interest earnings. The power of the SRF concept lies in the constant recycling of funds from an initial

loan back into the program where they can be loaned out for future projects. A unique feature of the DWSRF program allows States to reserve up to 31 percent of their annual federal DWSRF grant under “set-asides.” These set-asides can be used to fund a variety of State activities designed to achieve the public health protection objectives of SDWA. Each State uses set-asides to complement its loan program by funding proactive efforts, such as technical assistance, training and other support related to capacity development, operator certification, source water protection and related programs. For more detail on the DWSRF structure and eligible projects, see Exhibits 1 and 2 below.

EXHIBIT 1: Structure of the DWSRF

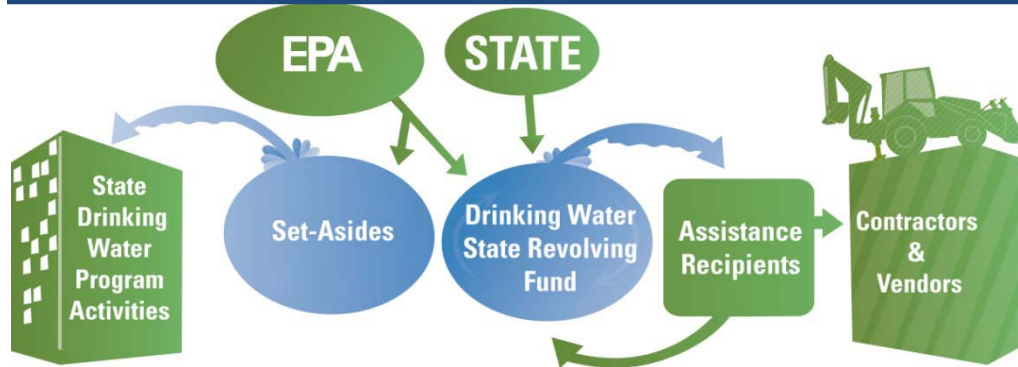
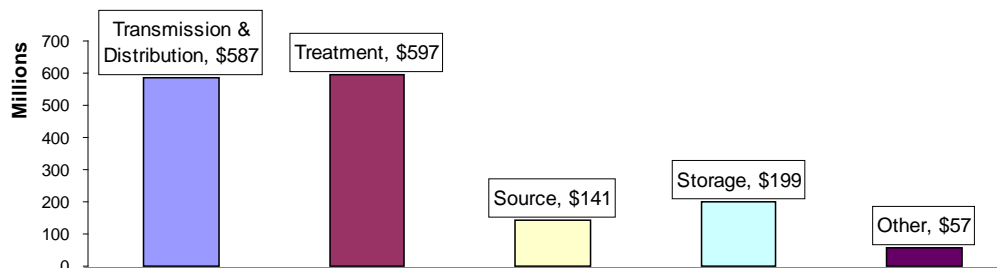


EXHIBIT 2: Assistance by Project Category in 2009



PROGRAM ACCOMPLISHMENTS OVERVIEW

Program Highlights

Since the program's inception in 1997, the States' DWSRFs have provided \$16.2 billion in low-interest loans to public water systems (see Exhibit 3) and have entered into over 6,000 assistance agreements. In 2009, the DWSRF financed over 700 drinking water infrastructure projects, providing \$1.6 billion in funds. The majority of these funds were allocated to treatment, transmission and distribution projects (see Exhibit 2).

Compliance assistance is a high priority for the DWSRF program. In 2009 more than \$1 billion of the \$1.6 billion provided went to projects to help systems remain in compliance with SDWA regulations, while over \$0.5 billion and \$134 million went to help systems achieve compliance with existing regulations and comply with new regulations, respectively (see Exhibit 4).

EXHIBIT 3: Cumulative Assistance Available & Assistance Provided

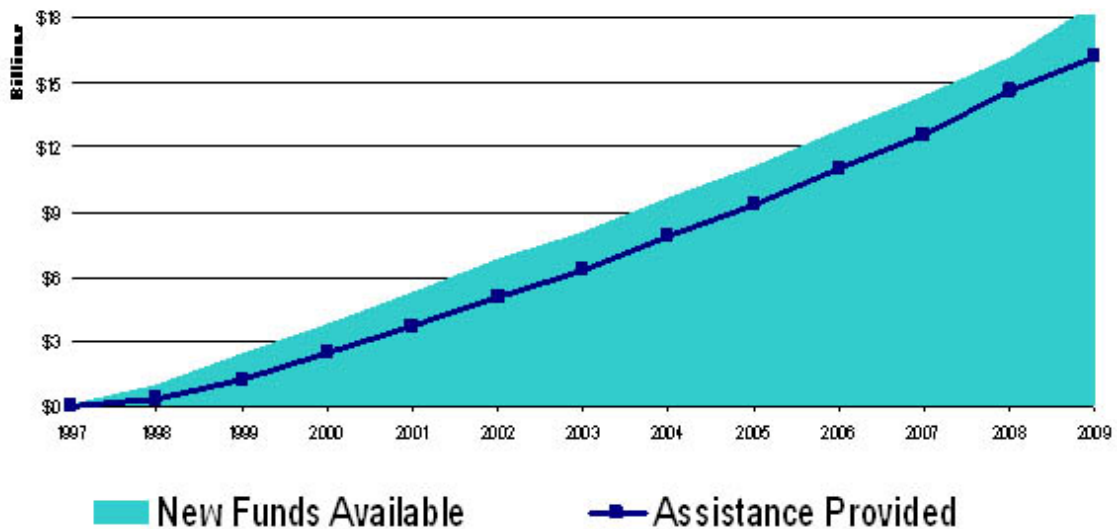
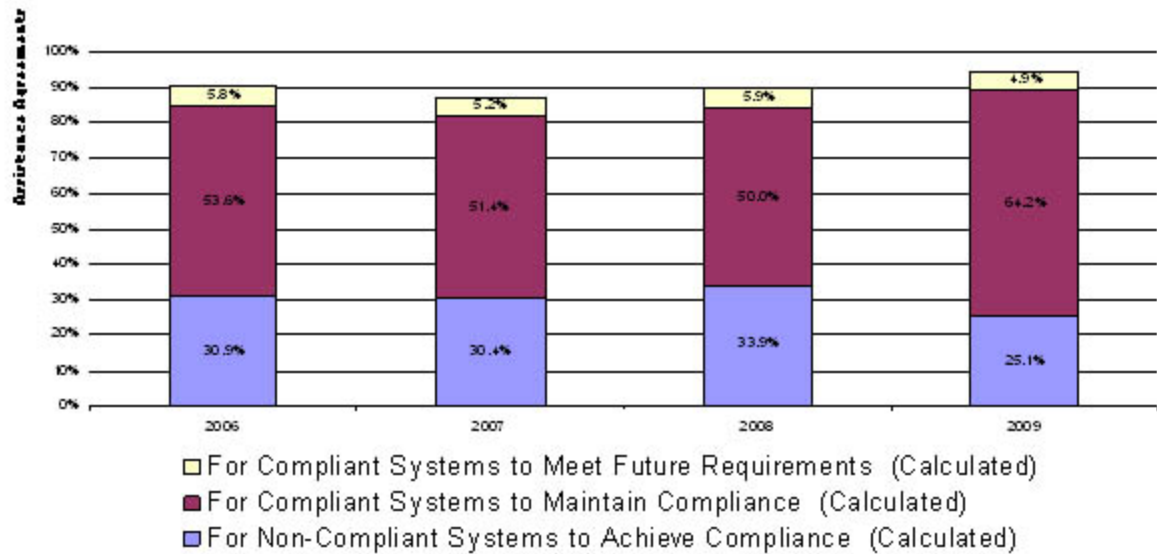


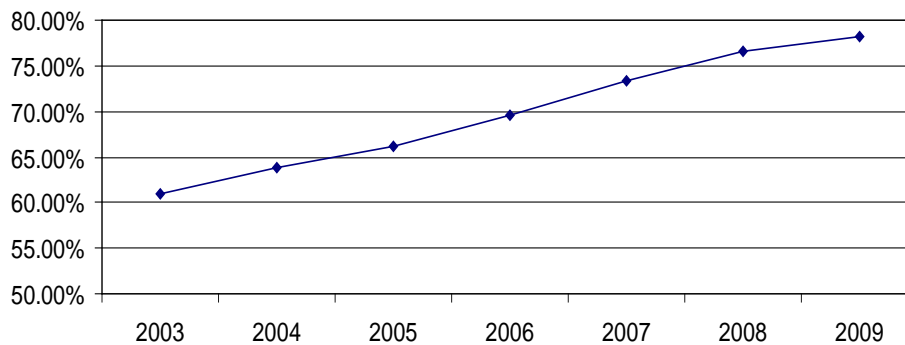
EXHIBIT 4: Assistance for Compliance with SDWA by Category, 2006-09



The program also maintained its commitment to providing funding to systems with the greatest demonstrated need. Thirty-eight percent of all DWSRF assistance funded in 2009 went to systems serving 10,000 or fewer people. Over 250 assistance agreements in 2009 totaling over \$400 million were made to state-designated disadvantaged communities. These systems typically have fewer options for financing infrastructure improvements, and DWSRF funding enables them to make necessary investments in the health of their communities. (For further discussion on assistance to disadvantaged communities, please see page 17.)

In addition to direct loans for infrastructure projects, the four DWSRF set-asides provide funding for state programs that help water systems achieve optimum public health protection. States use the set-asides to fund State Public Water System Supervision (PWSS), source water protection, capacity development, technical assistance and other important programs. In 2009, States expended over \$150 million in set-aside funds, representing the highest single-year total in the lifetime of the DWSRF (see Exhibit 5). (For additional information on the DWSRF set-asides, see page 21).

EXHIBIT 5: Cumulative Set-Aside Spending Rate, 2003-2009



12 Years of Growth

Cumulative funds available through the DWSRF exceeded \$18 billion in 2009. In 2009 alone, over \$2.5 billion in new funds were available for projects, up from \$1.8 billion in 2008 (see Exhibit 6). From 2006-2008, annual funding has exceeded new funds available (composed of annual capitalization grants and State contributions),

compensating for the program's early years when new funds were not immediately used. DWSRF gross revenues, which are derived from fees, investments, and repayments, have also steadily increased over the past few years. In 2009, total cumulative revenues surpassed \$5.6 billion (see Exhibit 7).

EXHIBIT 6: Total Annual Assistance vs. New Funds Available

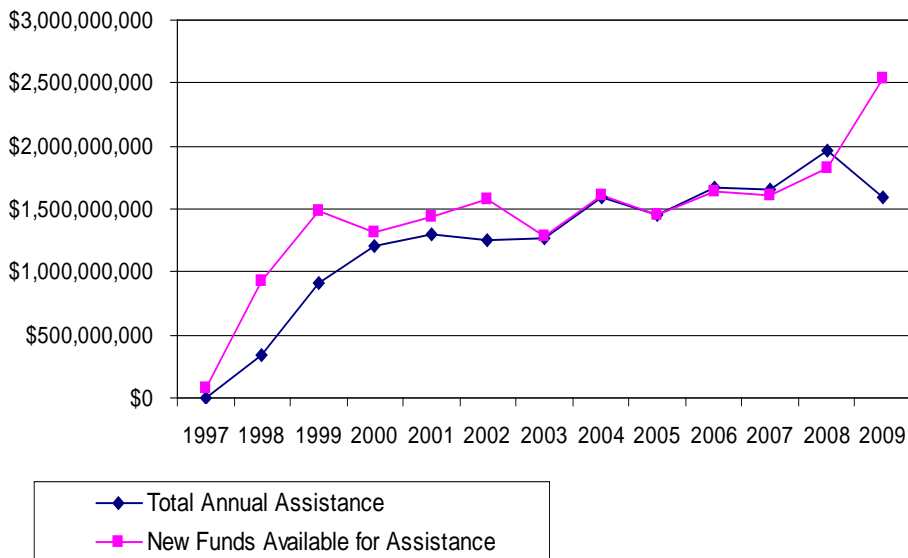
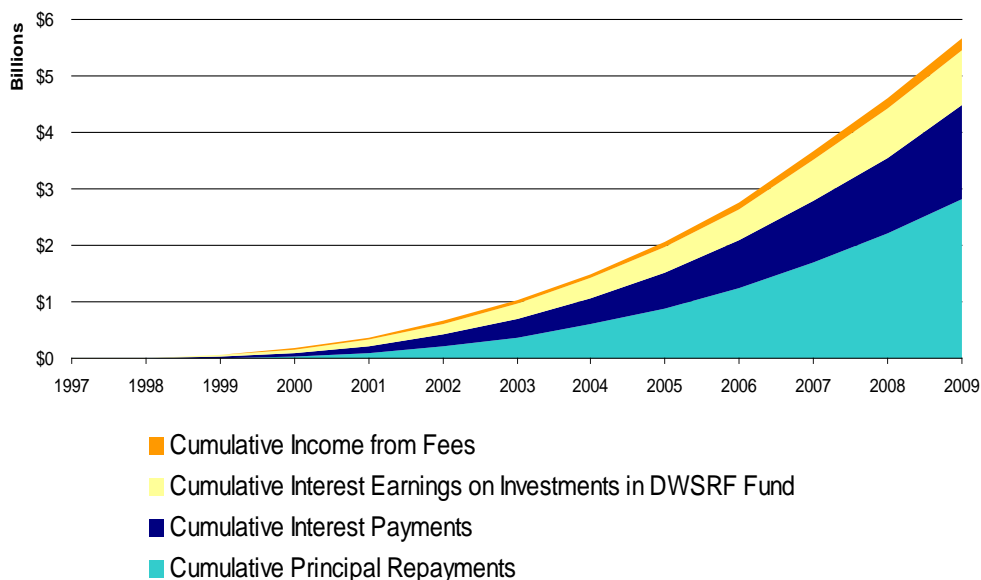


EXHIBIT 7: Cumulative DWSRF Revenues from Operations and Repayments



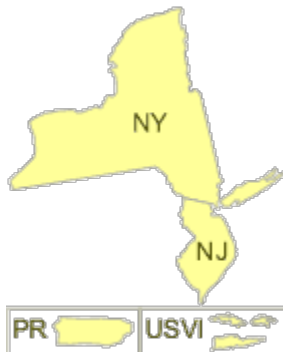
2008 DWSRF Award Winners

The DWSRF Awards for Public Health Protection recognize projects that exemplify exceptional creativity, effectiveness, and dedication to public health protection.



REGION 1

- *Orford Village District, NH*: Developed plans to replace a vulnerable ground water supply with bedrock wells and provide increased storage capacity and reliable water pressure.
- *Mattapoisett River Valley Water District, MA*: Developed plans for a regional ultra-filtration water treatment facility to address iron and magnesium contamination.
- *Towns of Newtown and Ledyard, CT*: Connected schools with water supplies at risk of contamination to centralized water systems.
- *Jamestown Water Division, Jamestown, RI*: Met SDWA microbial standards through construction of new membrane filtration plant built nearby and using components of the old plant.



REGION 2

- *City of Cape May, NJ*: Addressed threat of saltwater intrusion and met SDWA standards through installation of reverse osmosis water treatment technology, plant upgrades, and construction of a new well.

REGION 3



- *City of Wilmington, DE*: Constructed an underground storage tank, decreasing the contamination risk and amount of chlorine needed for treatment.
- *Martingham Utilities Cooperative, Talbot County, MD*: Installed an adsorption filtering system to reduce treatment costs and meet arsenic standards.
- *Sandy Run Water Association/Freeland Borough Municipal Authority, PA*: Consolidated faulty mining company drinking water systems with a regional drinking water provider.
- *Town of Ceredo, WV*: Installed new water lines to improve water efficiency, storage tanks, and a booster station to replace a defective backup water supplier and meet SDWA standards.

REGION 4



- *Harvest-Monrovia Water and Sewer Authority, Madison County, AL:* Constructed new storage tanks and water treatment plant to counter deteriorating raw water quality.
- *Collier County, FL:* Replaced sources threatened by poor surface water quality and saltwater intrusion with new wells to be treated by reverse osmosis.
- *City of Pascagoula, MS:* Constructed three reverse osmosis/ozone treatment plants to treat water from existing wells prone to saltwater intrusion.
- *Neuse Regional Water and Sewer Authority, NC:* Constructed regional treatment plant and 77 miles of transmission lines to help all Authority members maintain compliance.
- *Lexington County Public Works, Lexington County, SC:* Consolidated small, struggling drinking water system with that of a nearby town.

REGION 5

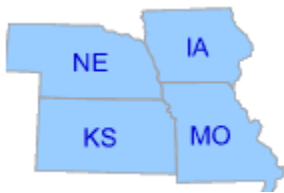


- *Town of Marshall, IN:* Planned and completed a project to connect a small drinking water system with chronic violations to a neighboring water system.
- *Mount Carroll, IL:* To meet radium standards, constructed elevated storage tank and new wells, and upgraded existing wells.
- *Guernsey County Water System, OH:* Created regional water supply by connecting communities with high sulfur, iron, and manganese to the county system.

REGION 6



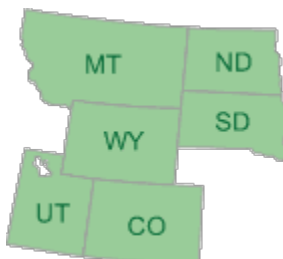
- *Greers Ferry Community Water System, AR:* Installed an ultrafiltration system that provides higher quality water at same cost as conventional filtration while using less chemicals and energy.
- *Louisiana Water Company, Inc., New Iberia, LA:* Drilled new wells to address elevated arsenic levels and updated treatment facility's clarifier, filter, and computer system.
- *City of Santa Fe, NM:* Addressed drought concerns by engineering diversion of water from the Rio Grande and building transmission lines and treatment facility.
- *City of Eagle Pass, Maverick County, TX:* Constructed ultra-filtration treatment plant, upgraded distribution systems, and purchased under performing water systems which increased water efficiency.



REGION 7

- *City of Clarinda, IA*: Replaced treatment facility and formed a partnership with Rural Water District.
- *City of Hutchinson, KS*: Constructed reverse osmosis treatment plant to eliminate raw water volatile organic compounds while reducing chloride levels in plant residuals.

REGION 8



- *City of Craig, CO*: Replaced outdated and undersized treatment facilities with an ultraviolet/sodium hypochlorite on-site generation system.
- *Upper/Lower River Road Water and Sewer District, Great Falls, MT*: Extended municipal water systems to small community with poor raw water quality.
- *City of Devils Lake, ND*: Constructed new wells, transmission mains for water efficiency, and treatment plant following flood damage.
- *Minnehaha Community Water Corporation, SD*: Provided regional solution to contaminated raw water by constructing a new well field and treatment plant.
- *Central Iron County Water Conservancy District, UT*: Planned, designed, and completed consolidation of four troubled drinking water systems.

REGION 9



- *City of Williams, AZ*: Renovated treatment facility, increasing capacity by 50 percent and improving water quality.
- *Bear Valley, CA*: Constructed a membrane filtration facility, meeting turbidity standards and cutting costs.
- *Pahala and Honoumuli, County of Hawaii, HI*: Conducted exploratory well siting and water testing and constructed two new wells and a reservoir.
- *City of Winnemucca, NV*: Efficiently rehabbed a deficient water system taken over from private ownership using sound financial management and full-cost pricing.

REGION 10



- *City of Castleford, ID:* Constructed a new well, water lines, and treatment facility to address elevated contaminant levels.
- *Pasadena Park, WA:* Replaced water main losing up to one million gallons per day and posing a severe cross contamination threat.



Carson City, NV

ADDITIONAL 2009 DWSRF PROGRAM DETAILS

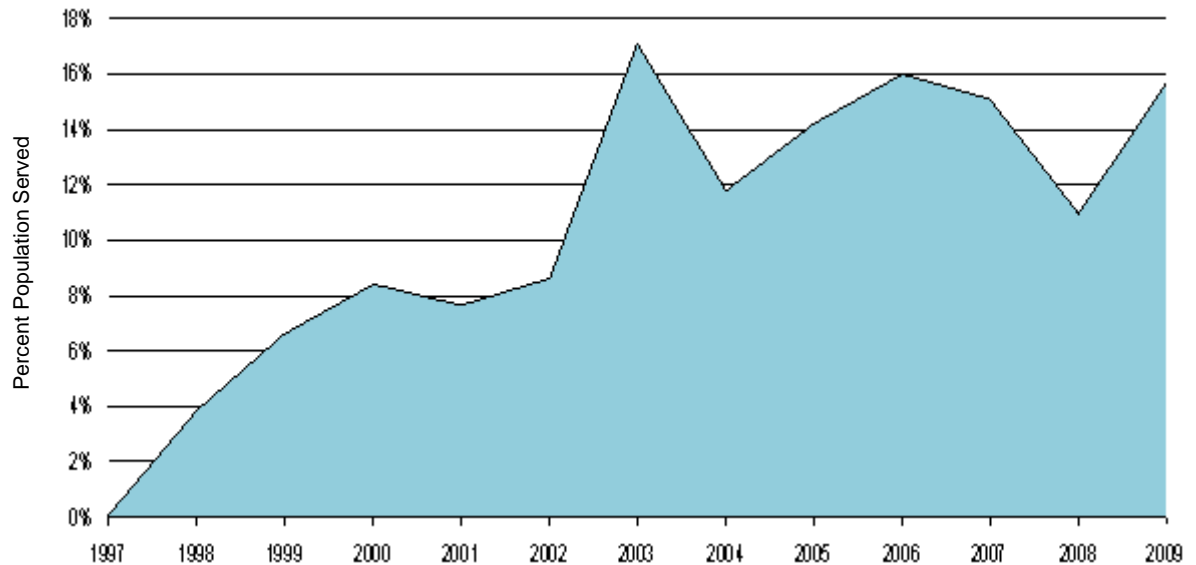
Supporting Communities

Population Served

In 2009, 92 percent of DWSRF assistance agreements were awarded to 712 community water systems (CWSs) which served a combined 46 million

Americans, equating to 16 percent of the total population served by CWSs (see Exhibit 8).

EXHIBIT 8: Annual Percent of Population Served by CWSs That Received DWSRF Assistance



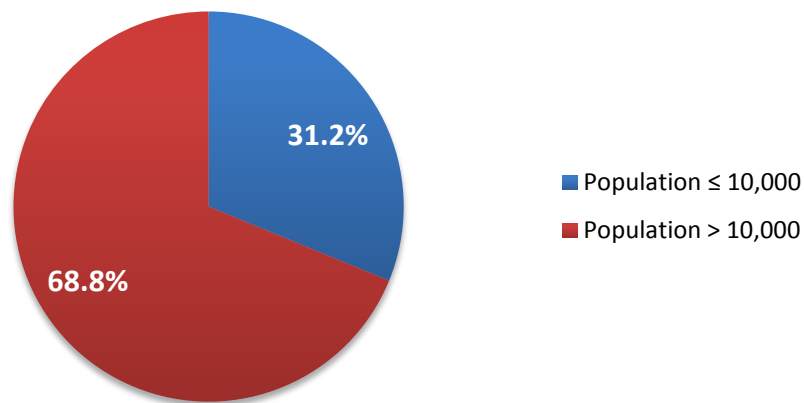
Needs, Assistance by System size

The 2007 DWINSA indicated that systems serving 10,000 or fewer persons account for 31 percent of the 20-year drinking water infrastructure need in the United States (see Exhibit 9). Cumulatively, the percentage of DWSRF funds that go to these small

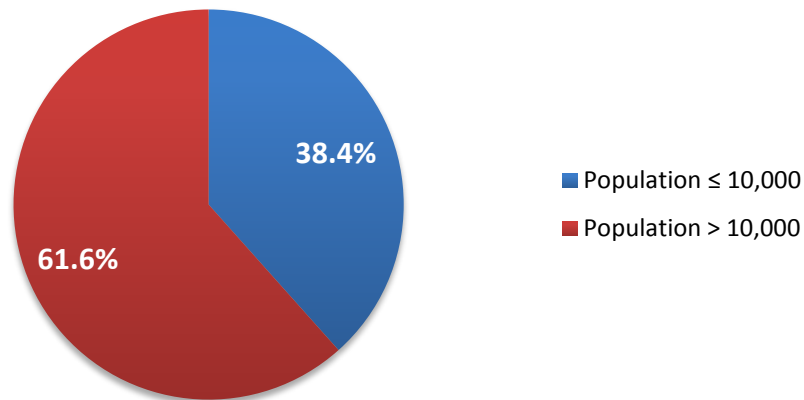
systems is over 38 percent. This level of support demonstrates the program's dedication to assisting small systems which have fewer internal capabilities than their larger counterparts to access other sources of funding.

EXHIBIT 9: Comparison of Total Needs and Cumulative DWSRF Assistance Provided by System Size

Infrastructure Needs by System Size



DWSRF Assistance by System Size

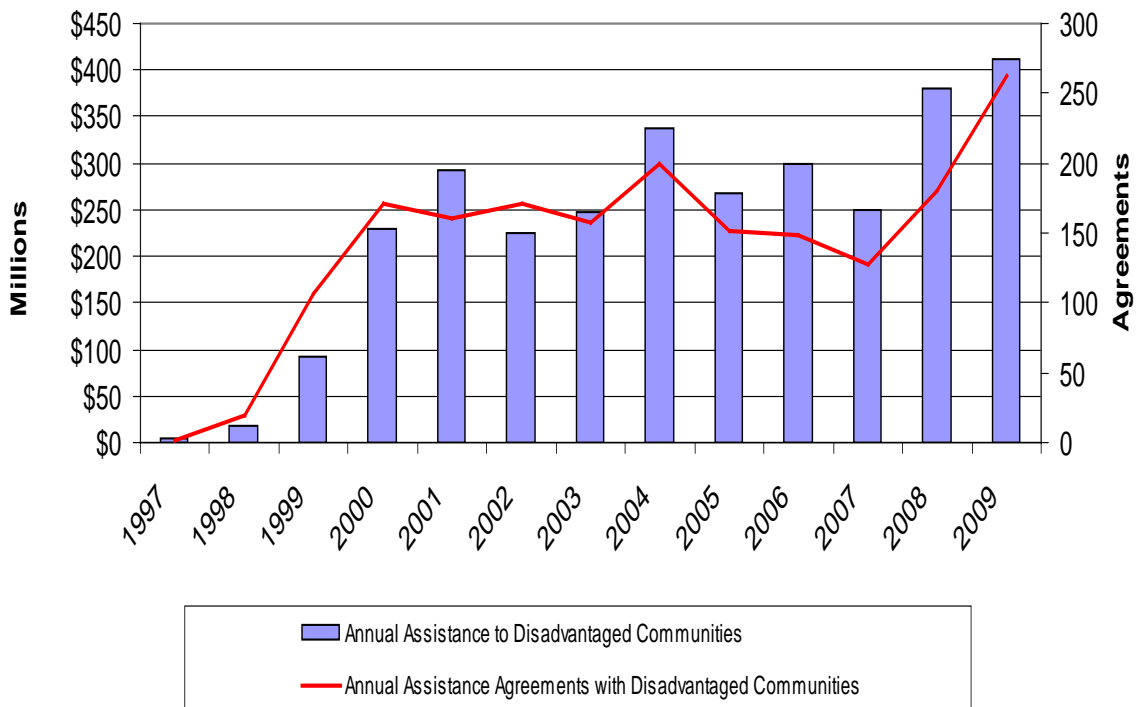


Assistance to Disadvantaged Communities

States electing to provide disadvantaged assistance under the DWSRF establish their own economic criteria to identify eligible communities. States generally rank projects for these communities higher on their project priority lists and offer them relief options such as longer repayment terms, lower interest rates and/or principal forgiveness.

In 2009, the DWSRF provided over \$412 million in infrastructure loans and financing to 263 disadvantaged communities serving a population of over 3 million, the largest annual amount of disadvantaged assistance since the DWSRF's inception (see Exhibit 10). Cumulatively, the DWSRF has provided over \$3 billion in assistance to these disadvantaged communities.

EXHIBIT 10: Annual Assistance to Disadvantaged Communities



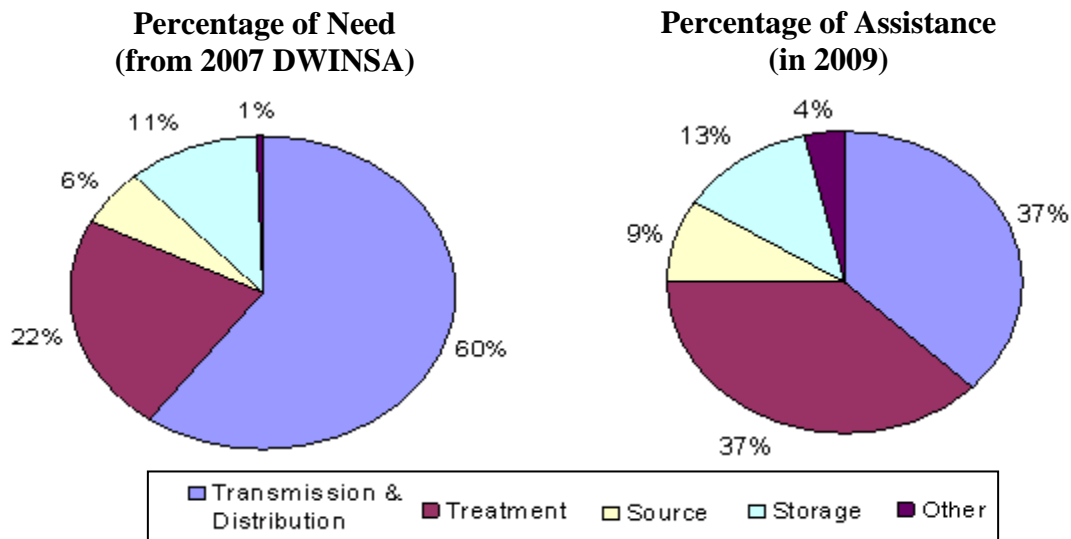
Projects Supported

Type of Need vs. Projects Funded

Treatment projects account for 22 percent of the total national drinking water infrastructure need. Forty-three percent of the DWSRF assistance was allocated to such projects in 2009 (see Exhibit 11). This reflects the program's emphasis on public health protection. Distribution and transmission projects account for 60 percent of the total national need and received about 40

percent of the DWSRF assistance in 2009. Water systems are more likely to fund distribution system projects on a pay-as-you-go basis or with cash reserves, funding a fixed amount of rehabilitation and replacement annually. Treatment projects, for the most part, are more complicated and expensive, and have a greater impact on public health protection.

EXHIBIT 11: Type of Need vs. Projects Funded by Project Category in 2009



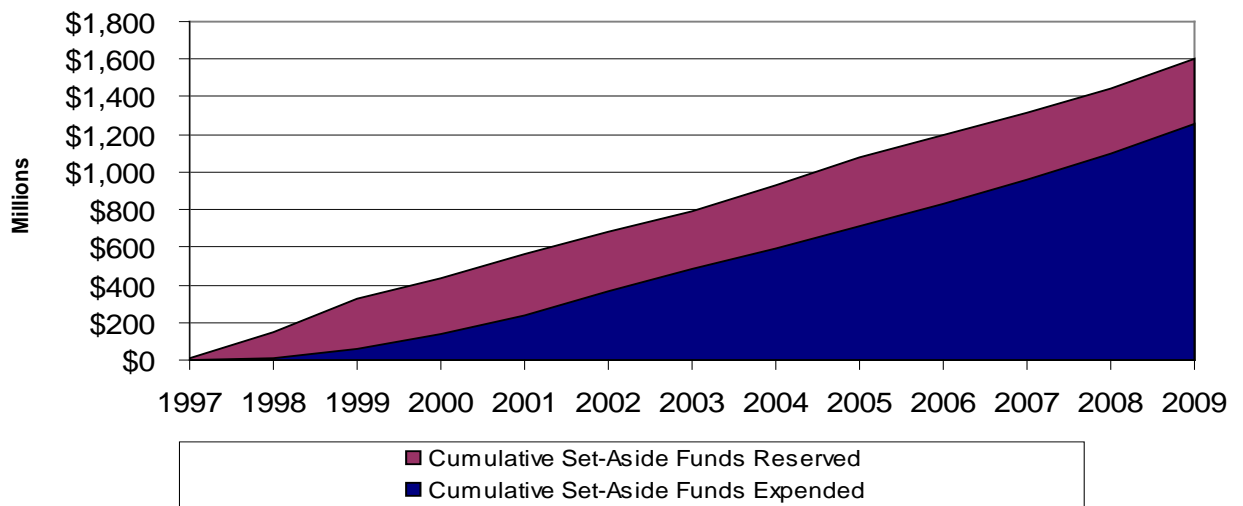
Set-Asides

Overview

States can reserve up to 31 percent of their federal capitalization grant for programs other than infrastructure project loans. Each of the four set-asides -- Small Systems Technical Assistance, Administrative and Technical Assistance, State Program Management, and Loan Assistance and Other State

Programs -- assist the States to support critical drinking water programs. Since 2004, States have consistently increased the number of set-aside dollars being expended or committed. In 2009, States spent a record \$154 million from their set-asides (see Exhibit 12).

EXHIBIT 12: Cumulative Set-Asides Reserved and Expended

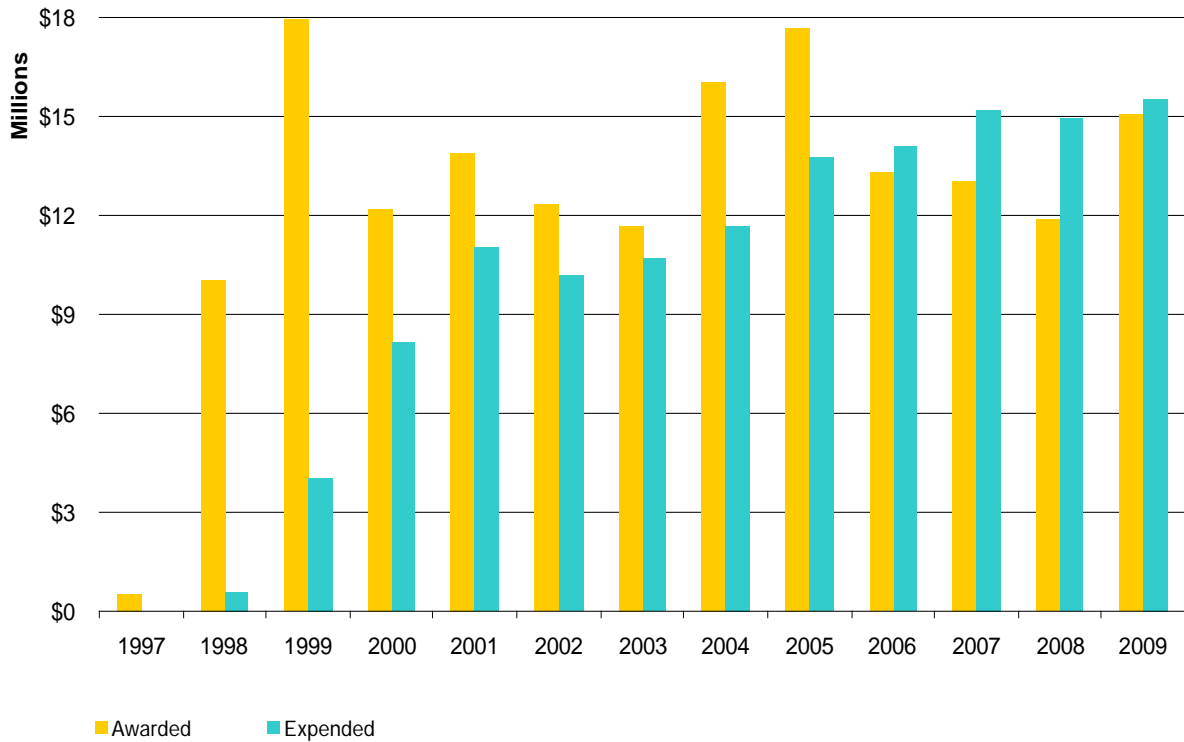


Small Systems Technical Assistance Set-Aside

For small drinking water systems serving 10,000 persons or less, States can reserve up to 2 percent of their federal capitalization grant to fund programs supporting such systems. Over \$163 million has been awarded to fund programs under this set-aside and

these programs have provided 215,000 instances of support (e.g., site visits, technical assistance, training, etc.) to small systems. Since 2006, States have spent over \$14 million per year on this set-aside (see Exhibit 13).

EXHIBIT 13: Small Systems Technical Assistance Set-Aside: Annual Amount Awarded and Expended

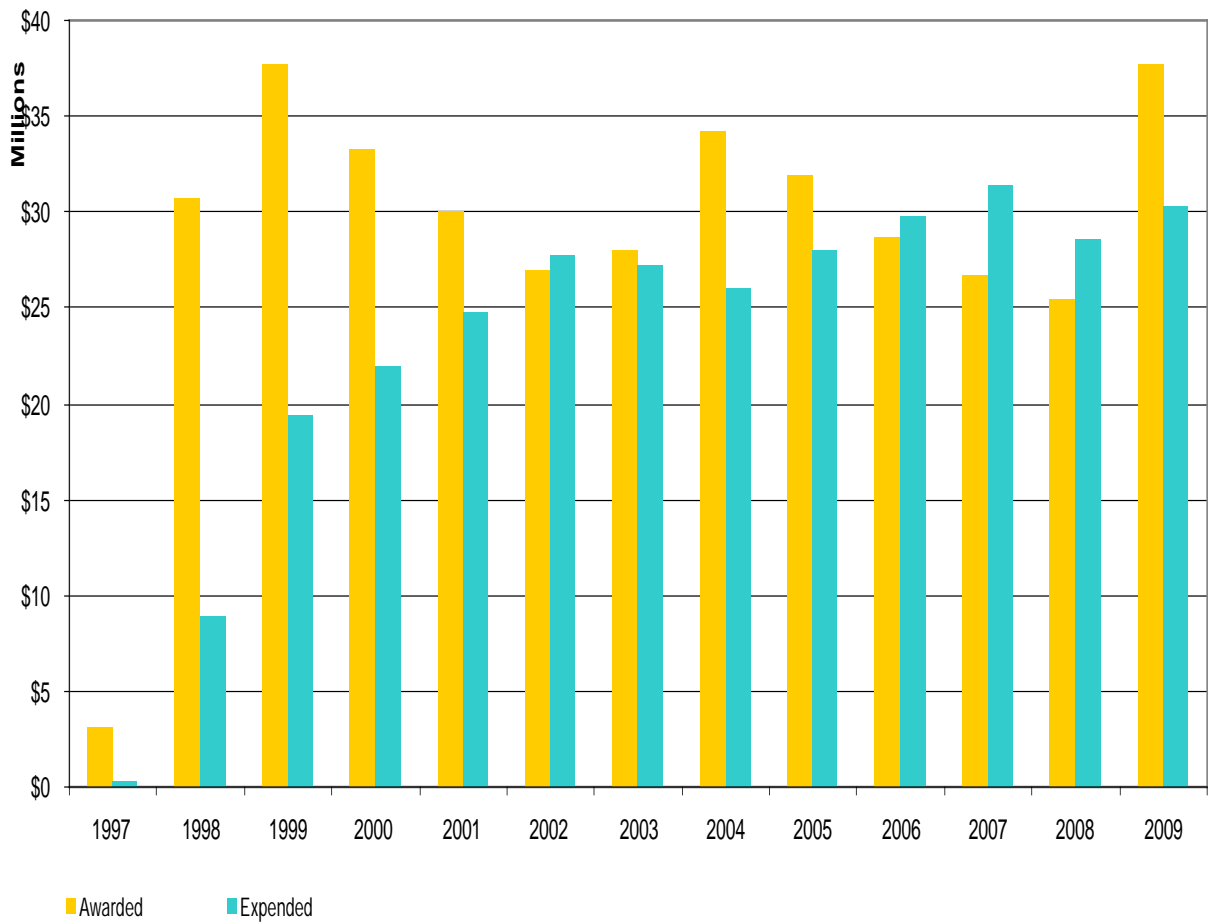


Administrative and Technical Assistance Set-Aside

States can reserve up to 4 percent of their capitalization grant for administrative costs including assisting water systems in applying for DWSRF loans. From 2006 to 2008, States

expended more from the Administrative and Technical Assistance set-aside than the amount they set aside each year (see Exhibit 14). In 2009, States expended over \$30 million from this set-aside.

EXHIBIT 14: Administrative and Technical Assistance Set-Aside: Annual Amount Awarded and Expended

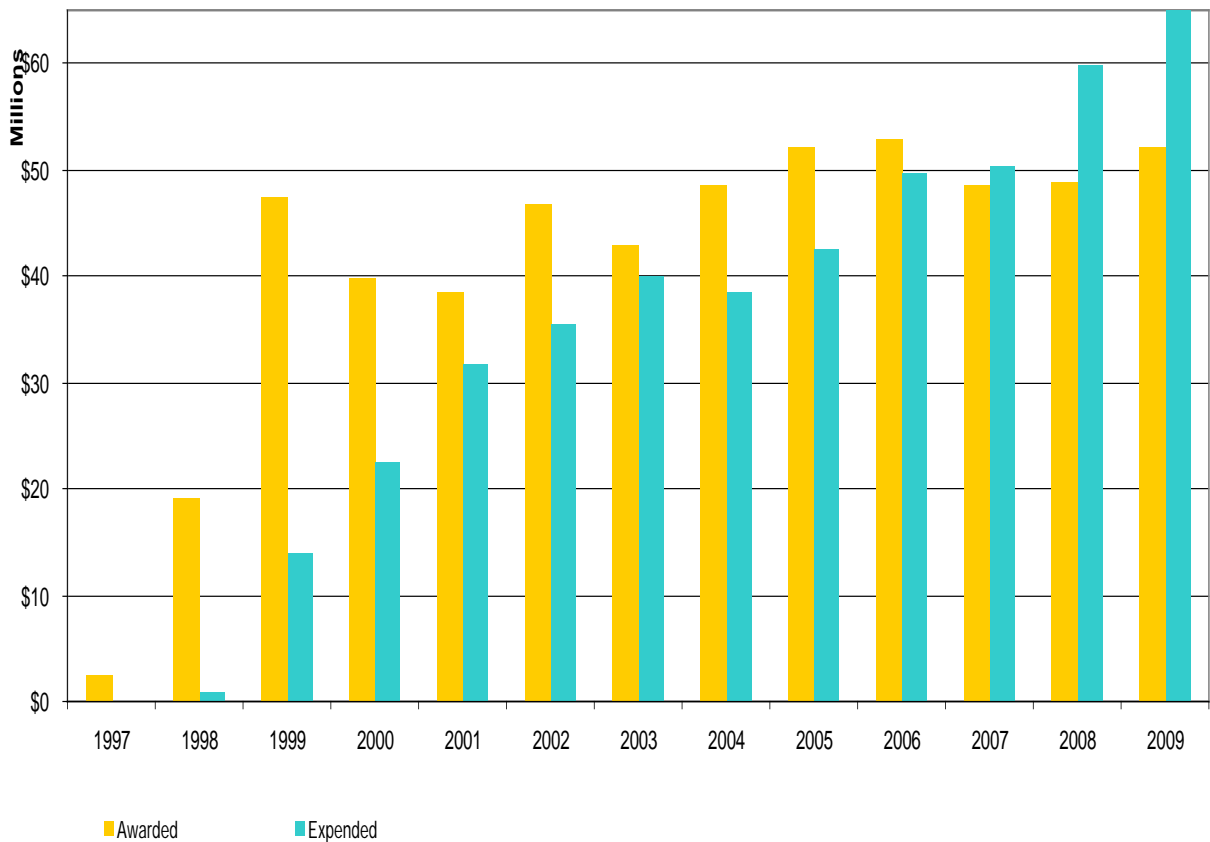


State Program Management Set-Aside

States can reserve up to 10 percent of their federal capitalization grant for their Public Water System Supervision (PWSS) programs, such as source water protection, capacity development and operator certification. Since its inception, the total amount expended

under this set-aside is over \$448 million. Since 2006, States, on average, spent over \$49 million annually for State PWSS program management activities (see Exhibit 15). In 2009, States spent nearly \$65 million of their Program Management set-aside funds.

EXHIBIT 15: State Program Management Set-Aside: Annual Amount Awarded and Expended



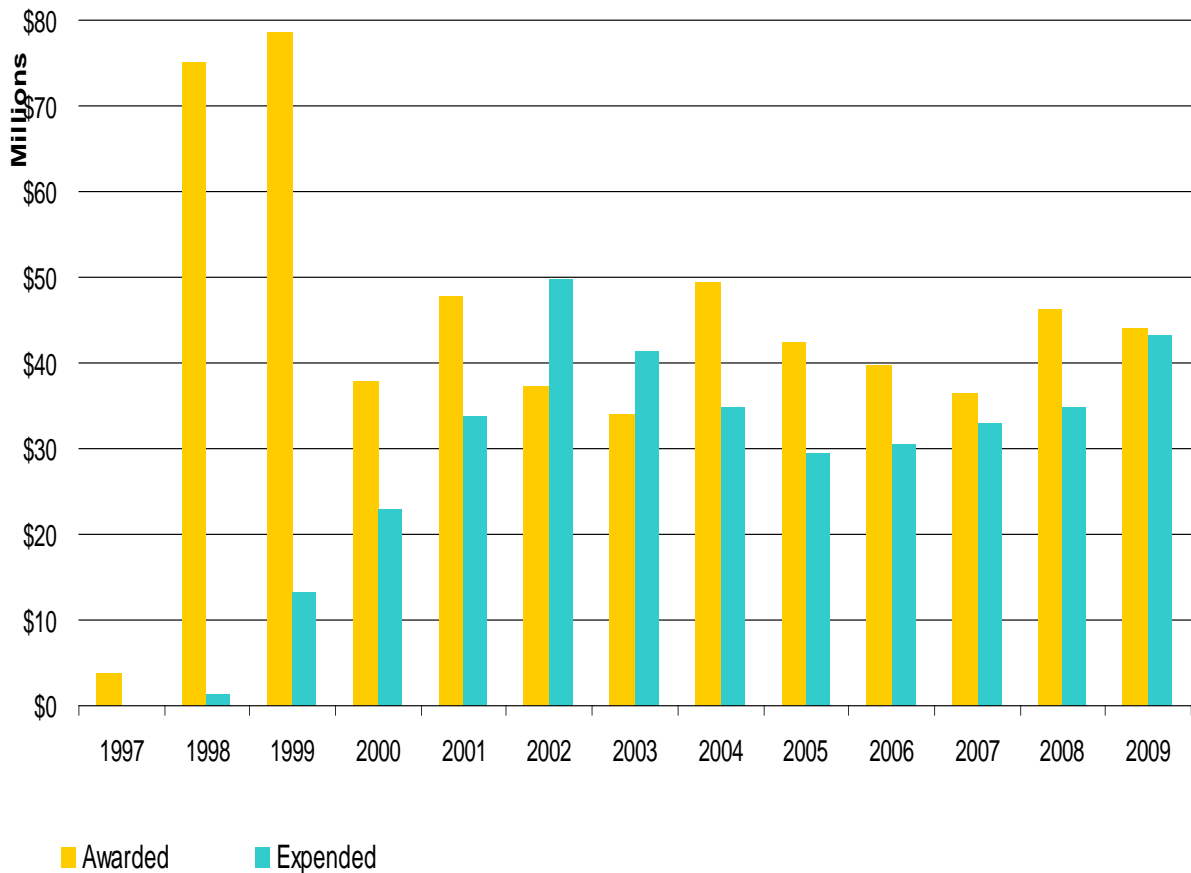
Local Assistance and Other State Programs Set-Asides

States can reserve up to 15% of their federal capitalization grant (although no more than 10% for any one activity) to provide loans for land acquisition or conservation easements for protection of source waters, provide loans for the implementation of voluntary, incentive-based source water quality protection measures, assist PWSs as part of a

Capacity Development Strategy, and assist PWSs with wellhead protection.

Since 1997, States have spent almost \$370 million under this set-aside, including over \$43 million in 2009 (see Exhibit 16).

EXHIBIT 16: Local Assistance and Other State Programs Set-Aside: Annual Amount Awarded and Expended



Financial Indicators

The DWSRF program tracks many financial indicators. Key indicators in this report include: contributions, other sources of contributions, federal and state return on investment, and assistance versus contribution.

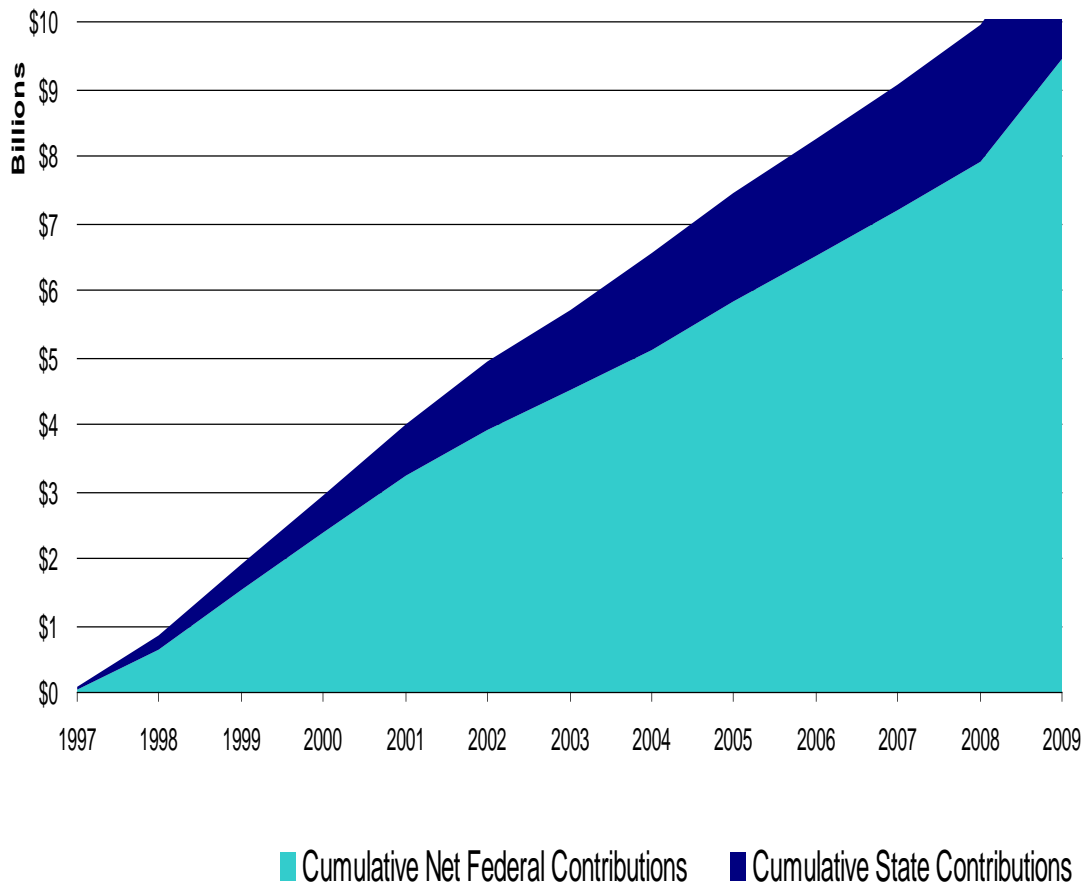


Contributions

After adjusting for transfers with the Clean Water State Revolving Fund (CWSRF) program and set asides, the Federal Government has contributed nearly \$9.5 billion to the DWSRF since the program's inception. States have met

their 20 percent match requirements, cumulatively contributing over \$2.1 billion to their revolving funds (see Exhibit 17). In 2009, over \$1.7 billion was added to the DWSRF from both sources.

EXHIBIT 17: Cumulative Federal and State Contributions to the DWSRF

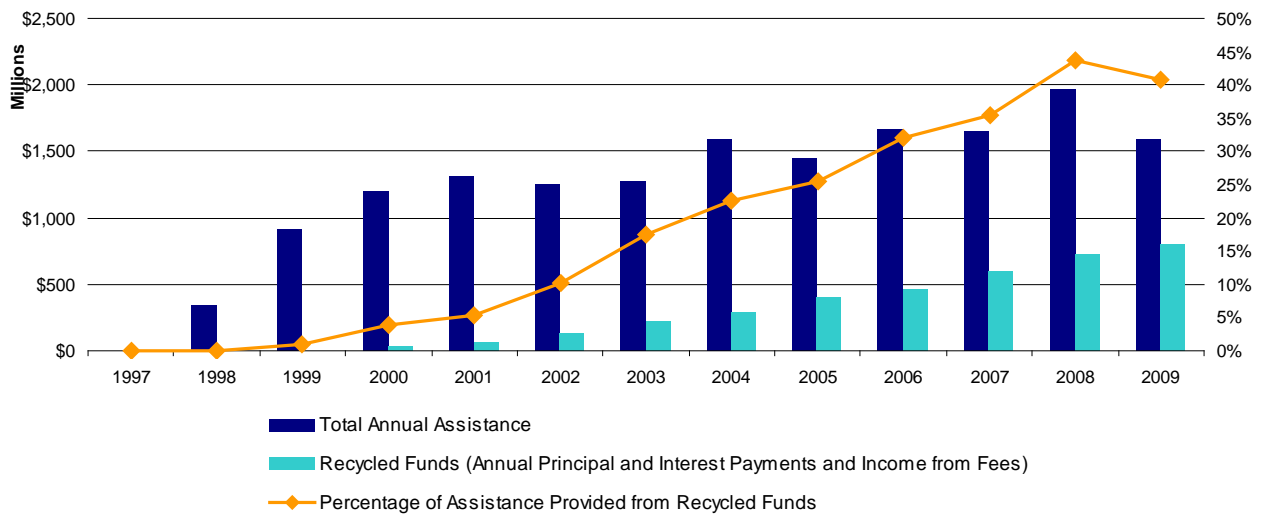


Other Sources of Contributions

In addition to Federal and State contributions, funds also come from principal and interest payments, as well as fees on DWSRF loans. These repayments are a major component of maintaining the funds in perpetuity. Since 2006, over 30 percent of the

contributions came from revolving (i.e., “recycled”) funds, demonstrating the long-term financial capability of the DWSRF (see Exhibit 18). The decrease in 2009 is driven by the size of the ARRA funds.

EXHIBIT 18: Percentage of Annual Assistance from Recycled Funds

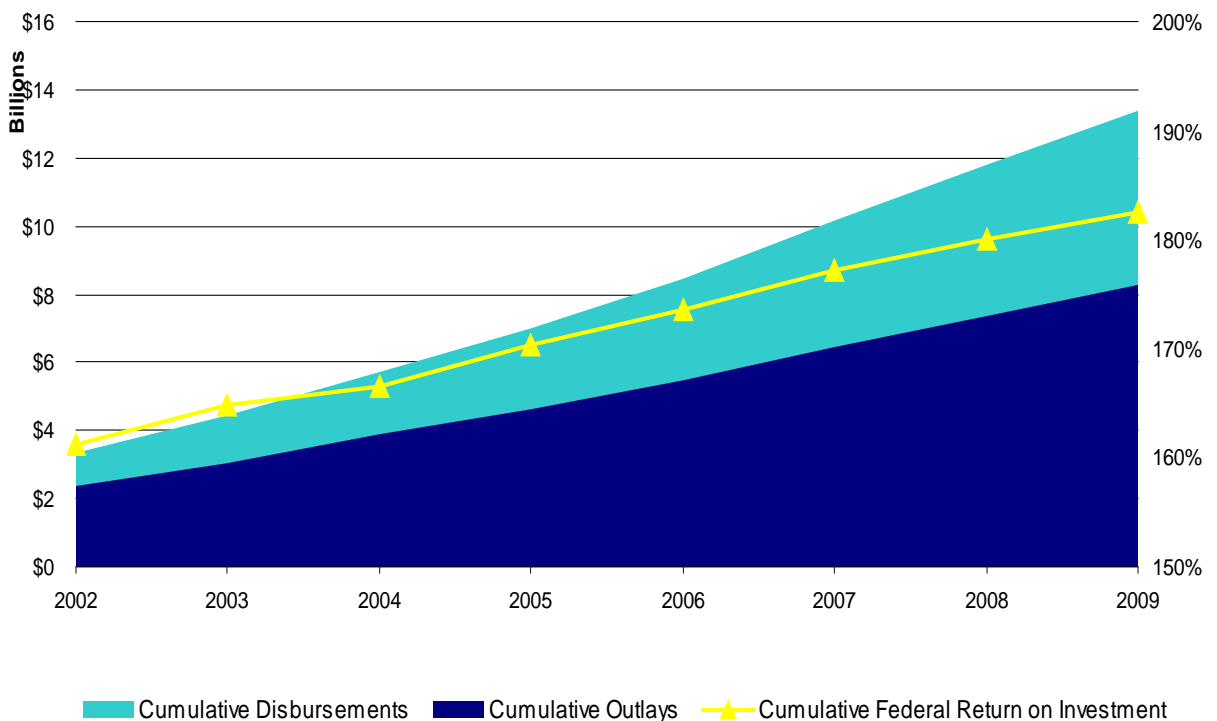


Federal Return on Investment

Return on investment (ROI) is a comparison between funds drawn from the federal treasury and total project disbursements. The cumulative federal ROI from the DWSRF reached 182 percent in 2009, meaning \$1.82 has been

spent on infrastructure for every \$1 invested by Congress (see Exhibit 19). Nearly \$14 billion in actual infrastructure improvements have been funded at a federal cost of only \$8.2 billion since 2002.

EXHIBIT 19: Cumulative Disbursements vs. Cumulative Federal Outlays and Federal ROI

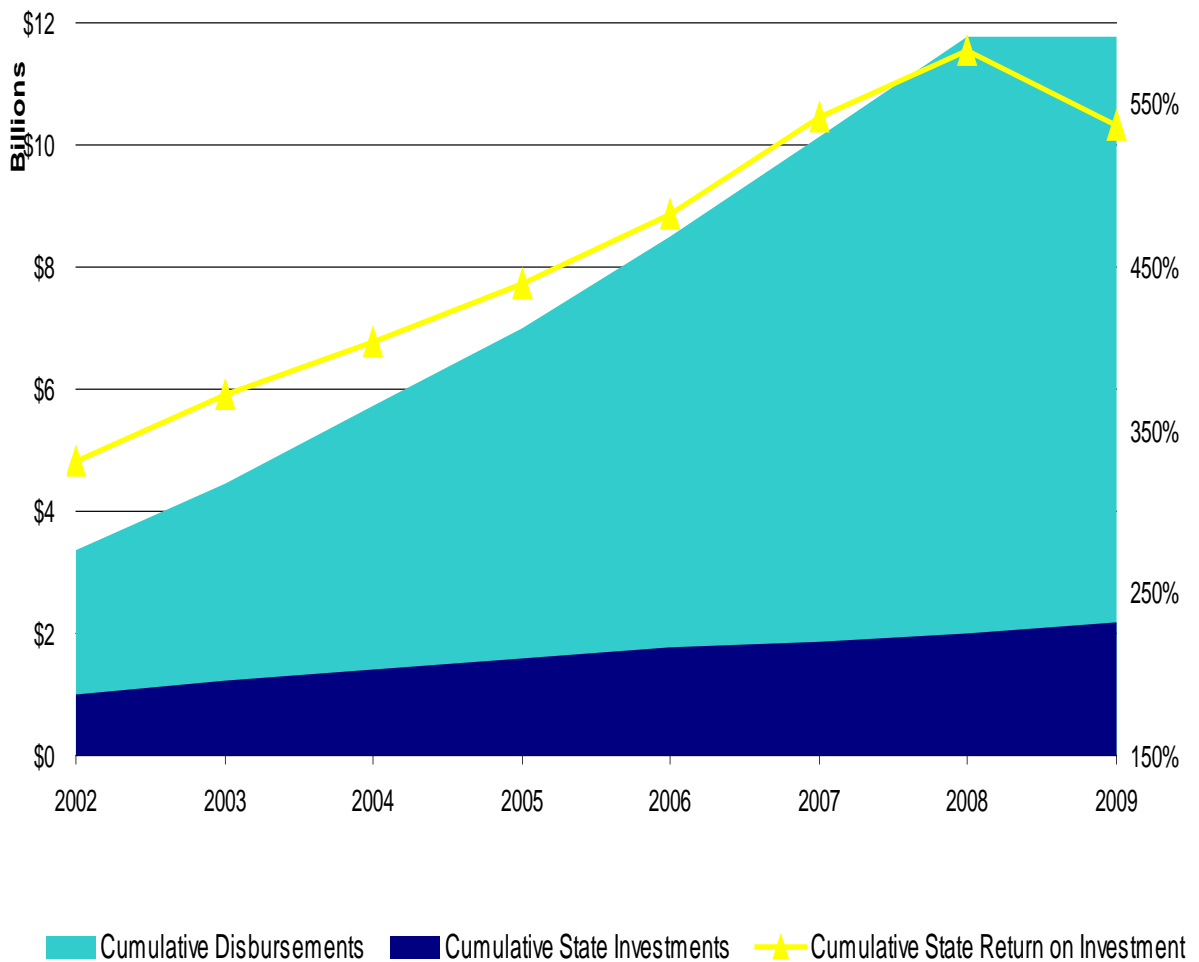


State Return on Investment

Since State contributions to the DWSRF are much less than the Federal Government, States have a higher ROI. In 2009, the States' ROI on DWSRF investments was nearly \$5.50 per State

dollar invested (see Exhibit 20). 2009 did see a slight decrease in disbursements compared to previous years.

EXHIBIT 20: Cumulative Disbursements vs. Cumulative State Investments and State ROI

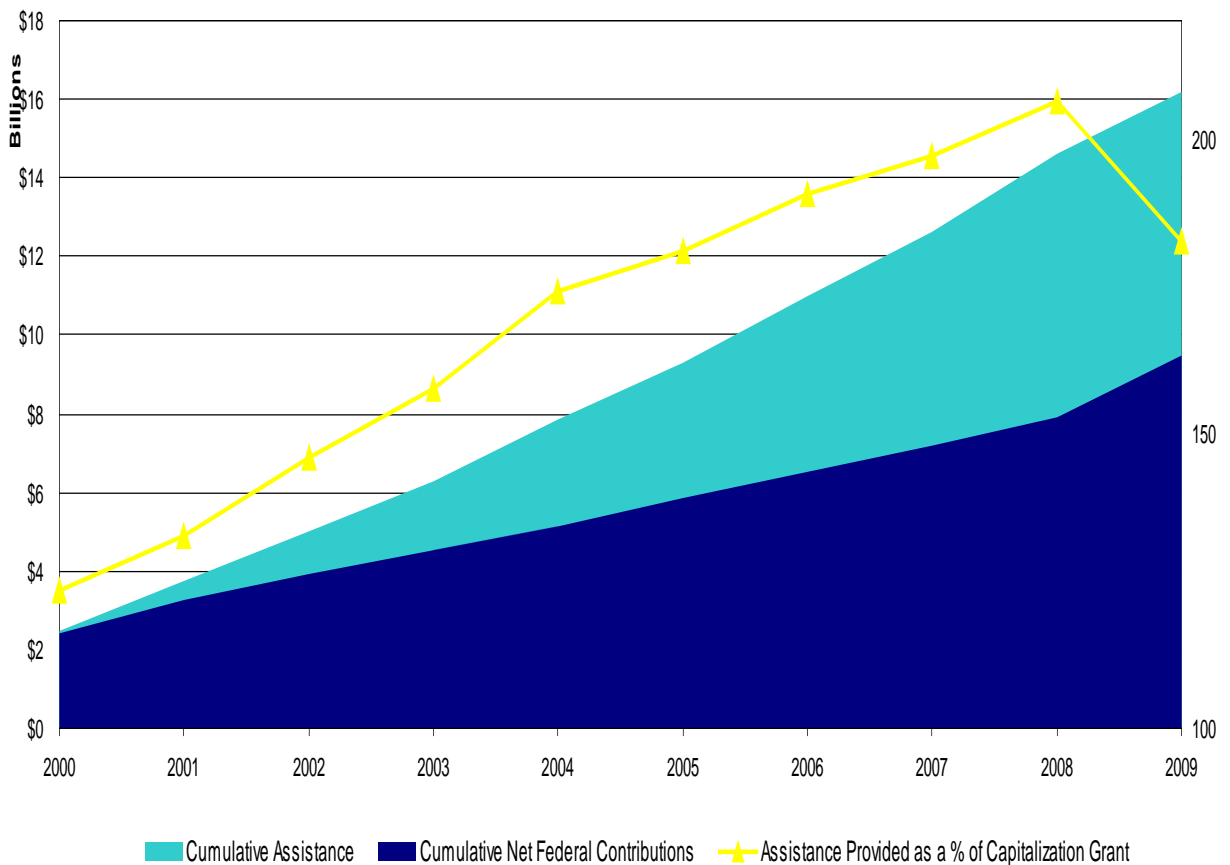


Assistance vs. Contributions

Comparing loan assistance to federal capitalization grants offers a different perspective in analyzing return on investment. As of 2009, nearly \$9.5 billion of cumulative Federal contribution to the loan fund has yielded more than \$16 billion in completed,

ongoing and planned infrastructure improvements, representing more than a 180 percent return on the federal investment (see Exhibit 21). 2009 saw a notable jump in federal contributions due to ARRA.

EXHIBIT 21: Cumulative Assistance vs. Annual Net Federal Contributions

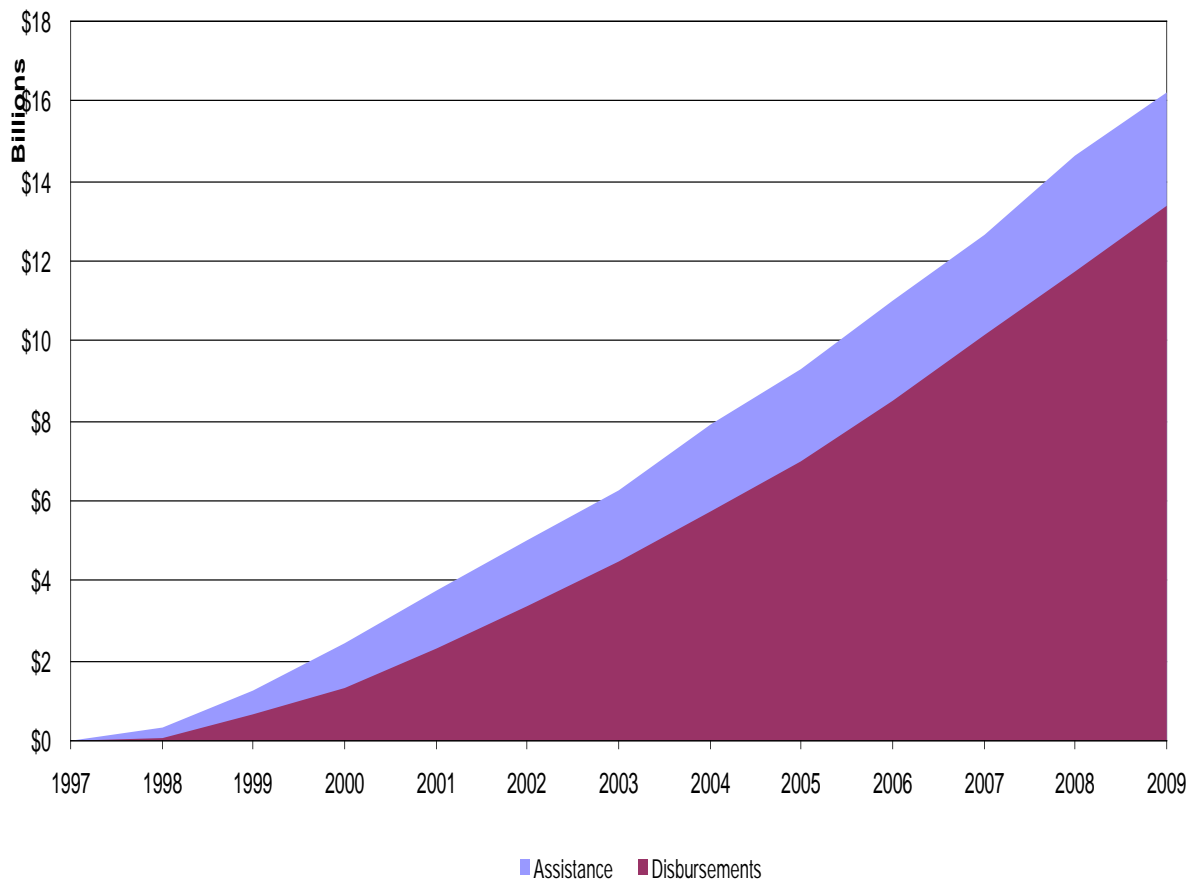


Assistance vs. Disbursements

The DWSRF loan is comparable to a line of credit that a system can draw on as it progresses on the project timeline after a loan agreement is made with the system. Systems are reimbursed for eligible project expenses. In the SRF program, these reimbursements are referred to as “project disbursements.” “Assistance” means that money is committed when agreements are signed,

and “disbursement” refers to the expenditure of money. Disbursements naturally lag behind assistance agreements as projects move from planning to groundbreaking to construction. More than \$1.6 billion in committed funds were disbursed in 2009. Since 1997, States have disbursed over \$13 billion of the \$16 plus billion committed (see Exhibit 22).

EXHIBIT 22: Cumulative DWSRF Assistance Provided vs. Disbursements



Financial Statements

The financial statements below are best considered as informal financial reports (see Exhibit 25).

“Funds Available” shows the Federal contribution and State matching activities. It also shows the cash drawn from the fund and set-asides.

“Income Statement,” which includes revenues, expenses, and earnings, describes the operating and non-operating revenues and expenses of the funds at the end of the fiscal year. Operating revenues and expenses include interest from fund investments and DWSRF loans, as well as expenses from bond interest and amortized bond issuance. Non-operating revenues and expenses include state and federal contributions and transfers into and out of the DWSRF.

“Net Assets” describes the DWSRF’s assets and liabilities at the end of the fiscal year. It shows both financial and capital assets, including grant funds that have been drawn from the federal treasury but not including total grant awards. Liabilities are either current or long-term liabilities, such as leveraged bonds and match bonds. The set-aside funds have no liabilities.

“Cash Flow” provides a detailed accounting of the flow of cash into and out of the DWSRF programs over the fiscal year. Cash flows into the fund include loan principal repayments, interest received on loans, and contributions from states. Flows out of the fund include loan disbursements to be repaid, bond issuance expense, and loan principal forgiven.

EXHIBIT 25: Financial Statements for DWSRF and its Set-asides (\$ millions)**Financial Information for DWSRF Fund (FY2009)**

(Millions of Dollars)

	2006	2007	2008	2009
Funds Available				
Annual Fund Activity				
Federal Capitalization Grants	777.3	792.4	836.1	1,705.6
State Matching Funds	167.6	114.4	146.8	169.4
New DWSRF Funds Available for Assistance	1,632.7	1,610.4	1,773.7	2,543.8
Project Commitments (Executed Loan Agreements)	1,663.7	1,653.7	1,965.6	1,590.7
New Set-Aside Funds Available for Assistance	134.6	124.5	150.9	148.9
Project Disbursements from the Fund	1,472.5	1,667.4	1,625.1	1,611.6
Cash Draws from Federal Capitalization Grants (Fund)	744.8	809.2	781.6	759.1
Cash Draws from Set-Asides	123.4	129.6	142.9	154.3
Cumulative Fund Activity				
Federal Capitalization Grants	7,343.1	8,135.5	8,971.6	10,677.1
State Matching Funds	1,754.7	1,869.1	2,019.9	2,189.1
DWSRF Funds Available for Assistance	12,762.5	14,372.9	16,146.6	18,690.8
Project Commitments (Executed Loan Agreements)	10,993.6	12,647.3	14,612.9	16,203.6
Set-Aside Funds Available for Assistance	1,199.4	1,313.9	1,457.8	1,605.8
Project Disbursements from the Fund	8,482.1	10,149.5	11,774.6	13,386.2
Cash Draws for Fund	4,682.2	5,491.4	6,273.0	7,032.1
Cash Draws for Set-Asides	822.0	951.6	1,094.5	1,248.8
Income Statement				
Operating Revenues				
Interest on Fund Investments	129.5	160.5	151.8	105.8
Interest on DWSRF Loans	206.0	241.0	260.3	302.8
<i>Total Operating Revenues</i>	335.5	401.5	412.1	408.6
Operating Expenses				
Bond Interest Expense	169.6	181.8	193.4	211.1
DWSRF Funds Used for Refunding	11.5	0.0	12.0	0.0
Amortized Bond Issuance Expense	2.4	2.6	2.7	3.0
<i>Total Operating Expenses</i>	183.5	184.5	208.2	214.1
Nonoperating Revenues and Expenses				
Federal Contribution	744.8	809.2	781.6	759.1
State Contributions	118.2	95.0	119.0	128.4

Loan Forgiveness Expenses	(42.9)	(30.4)	(40.6)	(100.7)
Transfers from (to) CWSRF	20.0	12.7	11.4	(6.7)
<i>Total Nonoperating Revenues and Expenses</i>	840.2	886.4	871.4	780.0
Increase (decrease) in Net Assets	992.2	1,103.5	1,075.3	974.6
Net Assets				
Beginning of Year	5,680.8	6,673.0	7,776.5	8,851.8
End of Year	6,673.0	7,776.5	8,851.8	9,826.3
Cash Flows				
Operating Activities				
Loan Disbursements to be Repaid	(1,429.6)	(1,637.1)	(1,584.5)	(1,510.9)
Loan Principal Forgiven	(42.9)	(30.4)	(40.6)	(100.7)
Loan Principal Repayments	354.9	454.4	529.0	608.0
Interest Received on Loans	206.0	241.0	260.3	302.8
Contributions from States	118.2	95.0	119.0	128.4
Cash Draws from Federal Capitalization Grants	744.8	809.2	781.6	759.1
<i>Total Cash Flows from Operations</i>	(48.5)	(67.8)	64.7	186.6
Noncapital Financing Activities				
Bond Issuance Expense	(7.4)	(4.5)	(7.3)	(5.8)
Interest Paid on Leveraged and State Match Bonds	(169.6)	(181.8)	(193.4)	(211.1)
DWSRF Funds Used for Refunding	(11.5)	0.0	(12.0)	0.0
Principal Repayment of Leveraged Bonds	(116.9)	(145.0)	(164.9)	(190.9)
Principal Repayment of State Match Bonds	(19.2)	(24.3)	(29.1)	(56.3)
State Match Bond Proceeds	49.3	19.4	27.8	41.1
Cash Received from Transfers with CWSRF	20.0	12.7	11.4	(6.7)
Gross Leveraged Bond Proceeds	563.8	403.3	533.0	342.4
<i>Total Cash Flows from Non-Capital Financing Activities</i>	308.6	79.6	165.5	(87.3)
Cash Flows from Capital and Related Financing Activities	0	0	0	0
Investing Activities				
Interest Received on Fund Investments	129.5	160.5	151.8	105.8
Deposits to Debt Service Reserve for Leveraged Bonds	(139.3)	(105.3)	(76.2)	(77.2)
<i>Total Cash Flows from Investing Activities</i>	(9.8)	55.2	75.6	28.6
Net Increase (Decrease) in Cash and Cash Equivalents	250.2	67.1	305.8	127.9
Beginning Balance - Cash and Cash Equivalents	2,475.6	2,725.8	2,792.8	3,098.6
Ending Balance - Cash and Cash Equivalents	2,725.8	2,792.8	3,098.6	3,226.6
Balance Sheet				
Assets				
Cash and Cash Equivalents	2,725.8	2,792.8	3,098.6	3,226.6
Debt Service Reserve - Leveraged Bonds	1,227.1	1,332.3	1,408.5	1,485.7
Loans Outstanding	6,935.8	8,118.5	9,174.0	10,077.0
Unamortized Bond Issuance Expenses	53.0	54.8	59.4	62.2
<i>Total Assets</i>	10,941.6	12,298.5	13,740.6	14,851.5

Liabilities				
Match Bonds Outstanding	306.7	301.8	300.6	285.4
Leveraged Bonds Outstanding	3,962.0	4,220.2	4,588.3	4,739.8
<i>Total Liabilities</i>	4,268.7	4,522.0	4,888.8	5,025.2
Net Assets				
Federal Contributions	4,682.2	5,491.4	6,273.0	7,032.1
State Contributions	1,387.6	1,482.6	1,601.5	1,729.9
Transfers - Other SRF Funds	374.8	387.5	398.9	392.2
Other Net Assets	228.3	415.0	578.3	672.2
<i>Total Net Assets</i>	6,673.0	7,776.5	8,851.8	9,826.3
Total Liabilities and Net Assets	10,941.6	12,298.5	13,740.6	14,851.5

Financial Information for the DWSRF Set-Asides (FY2009)

(Millions of Dollars)	2006	2007	2008	2009
Income Statement				
Operating Revenues				
Interest on 1452(k) Loan Account Investments	0.06	0.11	0.11	2.41
Interest on 1452(k) Loans	0.19	0.15	0.24	0.25
<i>Total Operating Revenues</i>	0.25	0.26	0.35	2.66
Operating Expenses				
Administrative Expenses Under the 4% Set-Aside	29.9	31.7	29.5	30.4
Expenses Under the 2% Set-Aside, Small Systems				
Technical Assistance	14.1	15.2	15.2	15.6
Expenses Under the 10% Set-Aside, State Program				
Management	49.2	50.0	61.4	64.9
Grants made under the 1452(k) Set-Aside	29.9	31.8	35.8	41.7
<i>Total Expenses</i>	123.1	128.7	141.8	152.7
Nonoperating Revenues and Expenses				
Federal Contribution	123.4	129.6	142.9	154.3
<i>Total Nonoperating Revenues (Expenses)</i>	123.4	129.6	142.9	154.3
Increase (decrease) in Net Assets	0.5	1.1	1.4	4.3
Net Assets				
Beginning of Year	6.4	7.0	8.1	9.5
End of Year	7.0	8.1	9.5	13.8
Cash Flows				
Operating Activities				
Federal Contribution	123.4	129.6	142.9	154.3
1452(k) Loan Disbursements Made to Borrowers	(0.3)	(0.9)	(1.1)	(1.6)
1452(k) Loan Principal Repayments	0.7	0.7	0.8	1.1
Interest Received on 1452(k) Loans	0.2	0.1	0.2	0.2
Administrative Expenses Under the 4% Set-Aside	(29.9)	(31.7)	(29.5)	(30.4)

Expenses Under the 2% Set-Aside, Small Systems Technical Assistance	(14.1)	(15.2)	(15.2)	(15.6)
Expenses Under the 10% Set-Aside, State Program Management	(49.2)	(50.0)	(61.4)	(64.9)
Grants made under the 1452(k) Set-Aside	(29.9)	(31.8)	(35.8)	(41.7)
<i>Total Cash Flows from Operating Activities</i>	0.9	0.8	1.1	1.4
Noncapital Financing Activities				
<i>Net Cash Provided by Noncapital Financing Activities</i>	0	0	0	0
Cash Flows from Capital and Related Financing Activities	0	0	0	0
Investing Activities				
Interest Earnings on 1452(k) Loan Account Investments	0.06	0.11	0.11	2.41
<i>Net Cash Provided by Investing Activities</i>	0.1	0.1	0.1	2.4
Net Increase (Decrease) in Cash and Cash Equivalents	1.0	0.9	1.2	3.8
Beginning Balance - Cash and Cash Equivalents	1.5	2.5	3.4	4.6
Ending Balance - Cash and Cash Equivalents	2.5	3.4	4.6	8.4
Balance Sheet				
Assets				
Cash and Cash Equivalents	2.5	3.4	4.6	8.4
Loans Outstanding	4.4	4.7	4.9	5.4
<i>Total Assets</i>	7.0	8.1	9.5	13.8
Liabilities				
<i>Total Liabilities</i>	0	0	0	0
Net Assets				
Federal Contributions	822.0	951.6	1,094.5	1,248.8
Other Net Assets	(815.1)	(943.5)	(1,085.0)	(1,235.0)
<i>Total Net Assets</i>	7.0	8.1	9.5	13.8
Total Liabilities & Net Assets	7.0	8.1	9.5	13.8

STATE AGENCIES

The State Agencies shown below are responsible for implementing the DWSRF program and ARRA, with the lead agency of a State listed first.

REGION 1

- Connecticut Department of Public Health
- Connecticut Department of Environmental Protection
- Connecticut Office of the Treasurer
- Maine Department of Human Services
- Maine Municipal Bond Bank
- Massachusetts Water Pollution Abatement Trust
- Massachusetts Division of Municipal Services
- Massachusetts Division of Watershed Management/Drinking Water Program
- New Hampshire Department of Environmental Services
- Rhode Island Clean Water Finance Agency
- Rhode Island Department of Health
- Vermont Water Supply Division
- Vermont Facilities Engineering Division

REGION 2

- New Jersey Department of Environmental Protection
- New Jersey Environmental Infrastructure Trust
- New York Department of Health
- New York Environmental Facilities Corporation
- Puerto Rico Department of Health
- Government Development Bank for Puerto Rico/Puerto Rico Infrastructure Financing Authority

REGION 3

- Delaware Health and Social Services
- Delaware Department of Natural Resources and Environmental Control

- Maryland Water Quality Financing Administration
- Maryland Water Management Administration
- Pennsylvania Infrastructure Investment Authority
- Pennsylvania Department of Environmental Protection
- Virginia Department of Health, Office of Drinking Water
- Virginia Resources Authority
- West Virginia Department of Health and Human Resources
- West Virginia Water Development Authority

REGION 4

- Alabama Department of Environmental Management
- Florida Department of Environmental Protection
- Georgia Environmental Facilities Authority
- Georgia Environmental Protection Division
- Kentucky Infrastructure Authority
- Kentucky Division of Water, Water Infrastructure Branch, Energy and Environment Cabinet
- Mississippi State Department of Health
- Mississippi State Tax Commission
- North Carolina Department of Environment and Natural Resources
- South Carolina Department of Health and Environmental Control
- South Carolina Budget and Control Board
- Tennessee Department of Environment and Conservation
- Tennessee Comptroller of the Treasury

REGION 5

- Illinois Environmental Protection Agency
- Indiana Finance Authority
- Indiana State Revolving Fund Loan Program
- Michigan Department of Environmental Quality
- Michigan Municipal Bond Authority
- Minnesota Public Facilities Authority
- Minnesota Department of Health
- Ohio Environmental Protection Agency
- Ohio Water Development Authority
- Wisconsin Department of Natural Resources
- Wisconsin Department of Administration

REGION 6

- Arkansas Natural Resources Commission
- Arkansas Department of Health
- Louisiana Department of Health and Hospitals
- New Mexico Finance Authority
- New Mexico Environment Department
- Oklahoma Department of Environmental Quality
- Oklahoma Water Resources Board
- Texas Water Development Board
- Texas Commission on Environmental Quality

REGION 7

- Iowa Department of Natural Resources
- Iowa Finance Authority
- Kansas Department of Health and Environment
- Kansas Department of Administration
- Kansas Development Finance Authority
- Missouri Department of Natural Resources Missouri Environmental Improvement and Energy Resources Authority
- Nebraska Department of Environmental Quality

REGION 8

- Colorado Water Resources and Power Development Authority
- Colorado Water Quality Control Division
- Colorado Department of Local Affairs – Division of Local Government
- Montana Department of Environmental Quality
- Montana Department of Natural Resources and Conservation
- North Dakota Department of Health
- North Dakota Public Finance Authority
- South Dakota Department of Environment and Natural Resources
- Utah Department of Environmental Quality, Division of Drinking Water
- Wyoming Office of State Lands and Investments
- Wyoming Department of Environmental Quality
- Wyoming Water Development Office

REGION 9

- Arizona Water Infrastructure Finance Authority
- California Department of Public Health
- Hawaii Department of Health
- Hawaii Safe Drinking Water Branch
- Hawaii Wastewater Branch
- Nevada Division of Environmental Protection
- Nevada Office of Financial Assistance

REGION 10

- Alaska Department of Environmental Conservation/Division of Environmental Health
- Idaho Department of Environmental Quality
- Oregon Health Services, Department of Human Services
- Oregon Economic and Community Development Department
- Oregon Department of Environmental Quality
- Washington State Department of Health

DWSRF AT A GLANCE

Drinking Water SRF Facts - 2009

Funds Available for Projects			Assistance Provided to Projects			
(Billions of Dollars)	2009	1997-2009	(Billions of Dollars)	2009 ARRA	2009	1997- 2009
Total Funds	2.5	18.7	Total Population Served	0.1	1.6	16.2
Federal Cap Grants	1.7	10.7	<10,001	0.05	0.6	6.2
State Match	0.2	2.2	10,001-100,000	0.05	0.6	6.3
Net Leveraged Bonds	0.3	4.0	>100,001	0.03	0.4	3.7
Net Loan Principal Repaid	0.4	1.9	Project Assistance		1.6	16.2
Net Interest Earnings	0.1	1.1	Planning and Design		0.009	0.1
Net Transfers with CWSRF	(0.007)	0.4	Treatment		0.6	6.9
Less Set-Asides	(0.2)	(1.6)	Transmission and Distribution		0.6	5.6
Number of Loans: 2009 = 712; Total = 6,665			Source		0.1	0.9
Return on Federal Investment = 1.83			Storage		0.2	1.7
SRF Assistance as a % of Funds Available = 87%			Purchase of Systems		0.006	0.2
Interest Rate in 2009 = 2.3% (Market = 5%)			Restructuring		0.009	0.06
20 States Leverage Over the Life of the Program			Land Acquisition		0.006	0.05
25 States Issue Match Bonds			Other		0.04	0.6
46 States Conduct Separate Audits						
38 States Fund Separate Grant / Loan Programs						
36 States Have Disadvantaged Assistance Programs						

(Billions of Dollars)	\$ Billions	# of Loans	% of \$	% of Loans
Cumulative Program Indicators				
Disadvantaged Assistance Loans	3.1	1,848	19%	28%
Loans with Principal Forgiveness	0.9	781	6%	12%
Loans to Communities with < 10,000 People	6.2	4,789	38%	72%
Funds Disbursed as a % of Assistance Provided	83%			
Set-Aside Spending Rate	78%			
Outlays as a % of Federal Grant	78%			
Set-Asides	1997- 2009	% of Grants		
All Set-Asides	1.6	15%		
Administrative	0.4	3.5%		
Small Systems	0.2	1.5%		
State Program Management	0.5	5%		
Local Assistance & Other State Programs	0.5	5%		

ANNUAL FUND ACTIVITY

DWSRF National Performance Summary Statement

Fund Activity - Estimated (\$ Millions)

Annual Fund Activity	2009	2008	2007
Federal Capitalization Grants	\$1,705.60	\$836.05	\$792.39
State Matching Funds	\$169.40	\$146.01	\$114.39
New DWSRF Funds Available for Assistance	\$2543.79	\$1773.65	\$1,609.35
Project Commitments (Executed Loan Agreements)	1,473.30	1,781.96	1,518.82
Number of Loans/Projects Financed	712/742	609/629	579/601
New Set-Aside Funds Available for Assistance	\$148.90	\$150.90	\$124.59
Project Disbursements from the Fund	\$1,611.60	\$1,625.01	\$1,667.42
Cash Draws from Federal Capitalization Grants (Fund)	\$913.30	\$786.20	\$808.70
Cash Draws from Set-Asides	\$154.20	\$138.27	\$130.27
Cumulative Fund Activity			
Federal Capitalization Grants	\$10,677.10	\$8,971.57	\$8,135.51
State Matching Funds	\$2,189.10	\$2,017.75	\$1,871.74
New DWSRF Funds Available for Assistance	\$18,690.40	\$16,146.16	\$14,372.97
Project Commitments (Executed Loan Agreements)	16,203.60	14,612.88	12,647.25
Number of Loans/Projects Financed	6665/6905	5,955/6,181	5,344/5,552
New Set-Aside Funds Available for Assistance	\$1,671.40	\$1,504.02	\$1,371.81
Project Disbursements from the Fund	\$13,386.16	\$11,776.63	\$10,149.49
Cash Draws from Federal Capitalization Grants (Fund)	\$8,280.80	\$6,273.30	\$5,487.10
Cash Draws from Set-Asides	\$1,256.20	\$138.27	\$963.40

AMERICAN RECOVERY AND REINVESTMENT ACT

ARRA Background Summary

History of ARRA

On February 13, 2009, Congress passed the American Recovery and Reinvestment Act of 2009 and the President signed it into law on February 17, 2009.

ARRA provided an additional \$2 billion appropriation for the DWSRF Program. The law emphasized funding high priority projects that were ready to expeditiously proceed to construction. In essence ARRA created a special DWSRF program within the larger existing base DWSRF program.

The special ARRA program had unique features that clearly set it apart from the base DWSRF program. Capitalization grants made to the States with ARRA dollars reflected these unique features as grant conditions. States had only one year from February 17, 2009 to commit all the ARRA dollars they received to

projects that were under construction or under contract for construction. No State match was required for ARRA capitalization grants. States were



required to use at least 50% of their ARRA dollars to provide additional subsidies to projects in the form of principal forgiveness, negative interest rates, or grants. Additionally, States were required to direct at least 20% of their ARRA dollars to projects offering water or energy efficiency improvements or other “green” benefits.



Brief Summary of ARRA Requirements

All projects receiving ARRA funds were required to meet the following requirements:

- All ARRA funds in projects under construction, or under contract for construction by February 17, 2010 in all States and Puerto Rico.
- At least 50 percent of ARRA funds used to provide additional subsidization such as grants, principal forgiveness or negative interest rate loans.
- At least 20 percent of ARRA funds used for four types of “green” projects:
 - 1) Green infrastructure
 - 2) Water efficiency improvements
 - 3) Energy efficiency improvements
 - 4) Environmentally innovative activities
- All iron, steel and manufactured goods incorporated into projects receiving any ARRA funds must be produced in the United States unless a waiver is received from EPA.
- All laborers and mechanics working on projects funded by ARRA must be paid in accordance with the Davis-Bacon prevailing wage rates.
- All projects receiving ARRA Funds report their progress through EPA.

ARRA Implementation



Additional Subsidy

In order to receive ARRA funding, each State was required to use at least 50 percent of its capitalization grant to provide additional funding for eligible projects in the form of grants, principal forgiveness, negative interest loans or any combination of these. This subsidy could be provided to any water system. The remainder of the capitalization grant could be used as the standard revolving loan. The DWSRF averaged 70 percent nationally for additional subsidy.

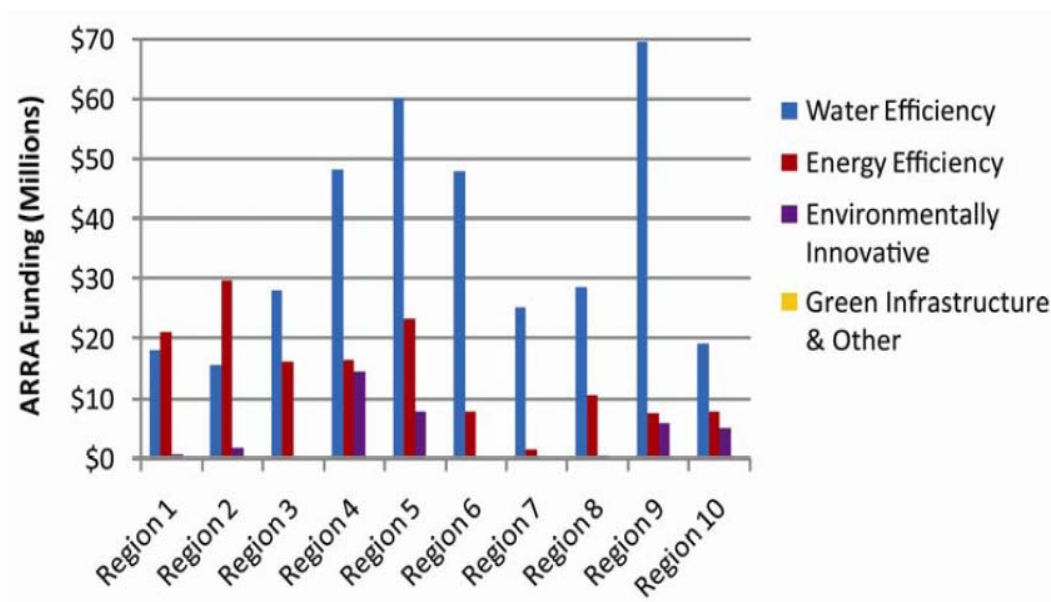
The base DWSRF program provides States the option of using up to 30 percent of a capitalization grant to provide additional subsidy (principal forgiveness or negative interest) to State defined disadvantaged communities. ARRA required States to provide at least 50% of their ARRA assistance as additional subsidy, included grants as a form of additional subsidy, and did not tie additional subsidy to status as a disadvantaged community.

Green Project Reserve (GPR)

EPA developed special guidance for the GPR to ensure proper implementation of this new provision. The Reserve’s 20 percent “floor” required States to solicit for these special projects and/or identify “green” elements in other projects. The DWSRF averaged 29 percent nationally for the GPR.

Examples of GPR projects include: the installation of high-efficiency pumps, replacement or rehabilitation of leaky pipes and installation of alternative energy sources on site. The number of GPR projects totaled 519 with a value of over \$540 million (see Exhibit 26).

EXHIBIT 26 – GPR Funding and Project Types by EPA Region



Davis-Bacon

ARRA required the use of Davis-Bacon Federal prevailing wage rates for all projects funded wholly or partially with ARRA funds. To help inform applicants and ensure correct implementation, EPA and the States conducted workshops and developed procedures, checklists and other guidance.



Buy American

Unless a waiver is granted by the EPA Administrator, ARRA required all projects funded wholly or partially with ARRA money to use iron, steel and manufactured goods made in the United States. Thus far, EPA has granted four

national waivers and 26 project specific waivers for drinking water. EPA conducted numerous webinars and training courses to inform states and borrowers on ways to comply with Buy American requirements.



ARRA Reporting

EPA guidance required States to report on the use of the ARRA funds on a weekly basis through February 17, 2010. EPA and States are using the DWSRF Project and Benefits Reporting System (PBR) to collect ARRA-funded projects' data such as project characteristics and milestone elements to fulfill the ARRA reporting requirement. States began entering data into PBR in early 2009. OMB guidance requires States to submit quarterly reports to OMB no later than 10 days after the end of the calendar quarter. Exhibit 27 presents a summary of ARRA project statistics. Most ARRA projects received both ARRA and base program funds from the DWSRF, allowing the State to provide even greater assistance to borrowers.

Number of Systems	1,230
Number of Loans	1,342
Number of Loans with Subsidy	1,207
Number of Loans with GPR	511
Total DWSRF Assistance	\$3,016,438,000
Total Base DWSRF Assistance	\$1,219,732,000
Total ARRA Assistance	\$1,796,706,000
Total ARRA Subsidy	\$1,215,110,000
Total GPR	\$538,121,000
Avg ARRA Assistance per Loan	\$1,339,000
Avg ARRA Subsidy per Loan	\$905,000
Avg ARRA Subsidy per Loan Receiving a Subsidy	\$1,007,000





For more information about the Drinking Water State Revolving Fund, please contact:

Drinking Water State Revolving Fund Program
U.S. Environmental Protection Agency
1201 Constitution Avenue, NW (Mail code 4606M)
Washington, DC 20460

Phone: (202) 564-2051

Fax: (202) 564-3754

Internet: http://water.epa.gov/grants_funding/dwsrf/