



Highlights of [GAO-10-761T](#), testimony before the Committee on Transportation and Infrastructure, House of Representatives

Why GAO Did This Study

The American Recovery and Reinvestment Act of 2009 (Recovery Act) included \$4 billion for the Environmental Protection Agency's (EPA) Clean Water State Revolving Fund (SRF). This testimony—based on GAO's report GAO-10-604, issued on May 26, 2010, in response to a mandate under the Recovery Act—addresses (1) state efforts to meet requirements associated with the Recovery Act and SRF program, (2) the uses of Recovery Act funds, and (3) EPA's and states' efforts to oversee the use of these funds.

GAO's review of the Clean Water SRF program focused on 14 states and selected localities—known as subrecipients—in each of these states. These 14 states received approximately 50 percent of the total appropriated under the Recovery Act for the Clean Water SRF. GAO obtained data from EPA and the 14 states, including the amounts and types of financial assistance each SRF program provided, which subrecipients were first-time recipients of Clean Water SRF funding, and which projects serve disadvantaged communities.

What GAO Recommends

GAO-10-604 recommended that the EPA Administrator work with the states to implement specific oversight procedures to monitor and ensure subrecipients' compliance with the provisions of the Recovery Act-funded Clean Water SRF program. EPA neither agreed nor disagreed with our recommendation.

View [GAO-10-761T](#) or [key components](#). For more information, contact David C. Trimble at (202) 512-3841 or trimbled@gao.gov.

RECOVERY ACT

Clean Water Projects Are Underway, but Procedures May Not Be in Place to Ensure Adequate Oversight

What GAO Found

The 14 states we reviewed for the Clean Water SRF program had all projects under contract by the 1-year, February 17, 2010, deadline and also took steps to give priority to projects that were ready to proceed to construction by that same date. Eighty-seven percent of Clean Water SRF projects were under construction within 12 months of enactment of the Recovery Act. In addition, the 14 Clean Water SRFs exceeded the 20 percent green reserve requirement, using 29 percent of SRF funds to provide assistance for projects that met EPA criteria for being “green,” such as water or energy efficiency projects; these states also met or exceeded the requirement to use at least 50 percent of Recovery Act funds to provide additional subsidization in the form of, for example, principal forgiveness or grants. SRF officials in most of the states we reviewed said that they faced challenges in meeting Recovery Act requirements, including the increased number of applications needing review and the number of new subrecipients requiring additional support in complying with the SRF program and Recovery Act requirements. States used a variety of techniques to address these concerns to meet the 1-year deadline, such as hiring additional staff to help administer the SRF program.

The 14 states we reviewed distributed nearly \$2 billion in Recovery Act funds among 890 water projects through their Clean Water SRF program. Overall, these 14 states distributed about 79 percent of their funds as additional subsidization, with most of the remaining funds provided as low- or zero-interest loans that will recycle back into the programs as subrecipients repay their loans. In addition, states we reviewed used at least 40 percent of Clean Water SRF Recovery Act project funds (\$787 million) to provide assistance for projects that serve disadvantaged communities, and almost all of this funding was provided in the form of additional subsidization. Almost half of the Clean Water SRF subrecipients had never previously received assistance through that program. Of the 890 projects awarded Recovery Act Clean Water SRF program funds in these states, more than one-third are for green projects, and almost all of these (93 percent) were awarded additional subsidization.

EPA has modified its existing oversight of state SRF programs by planning additional performance reviews beyond the annual reviews it already conducts, but these reviews do not include an examination of state subrecipient monitoring procedures. According to EPA officials, EPA has not established new subrecipient monitoring requirements for Recovery Act-funded projects and has given states a high degree of flexibility to operate their SRF programs based on each state's unique needs. Although many states have expanded their existing monitoring procedures, the oversight procedures in some states may not be sufficient given that (1) federal funds awarded to each state under the Recovery Act have increased as compared with average annual awards; (2) all Recovery Act projects had to be under contract within 1 year; and (3) EPA and states had little experience with some new Recovery Act requirements, such as the Buy American requirements. For example, some projects have been completed before any site inspection has occurred.