

Council of Infrastructure
Financing Authorities
DWSRF
Unliquidated Obligations

CIFA Workshop
Minneapolis MN
November 4, 2013

Status of DWSRF Unliquidated Obligations

- 1 – Overview of ULO situation
- 2 – Status of OIG Analyses
- 3 – Consequences of Continued High ULO
- 4 – EPA goals and plans for guidance on cash-flow model

Overview of DWSRF ULO Situation

- ULO – results in measurable, real, permanent loss to DWSRF – effectiveness & efficiency issues:
 - Delaying use of funds
 - Impedes investments in public health protection
 - Is clearly a concern to appropriators relative to need
 - 2006 \$s lost over 12% of purchasing power
 - 2010 \$s lost nearly 7% of purchasing power
 - For Loan Fund, interest lost also

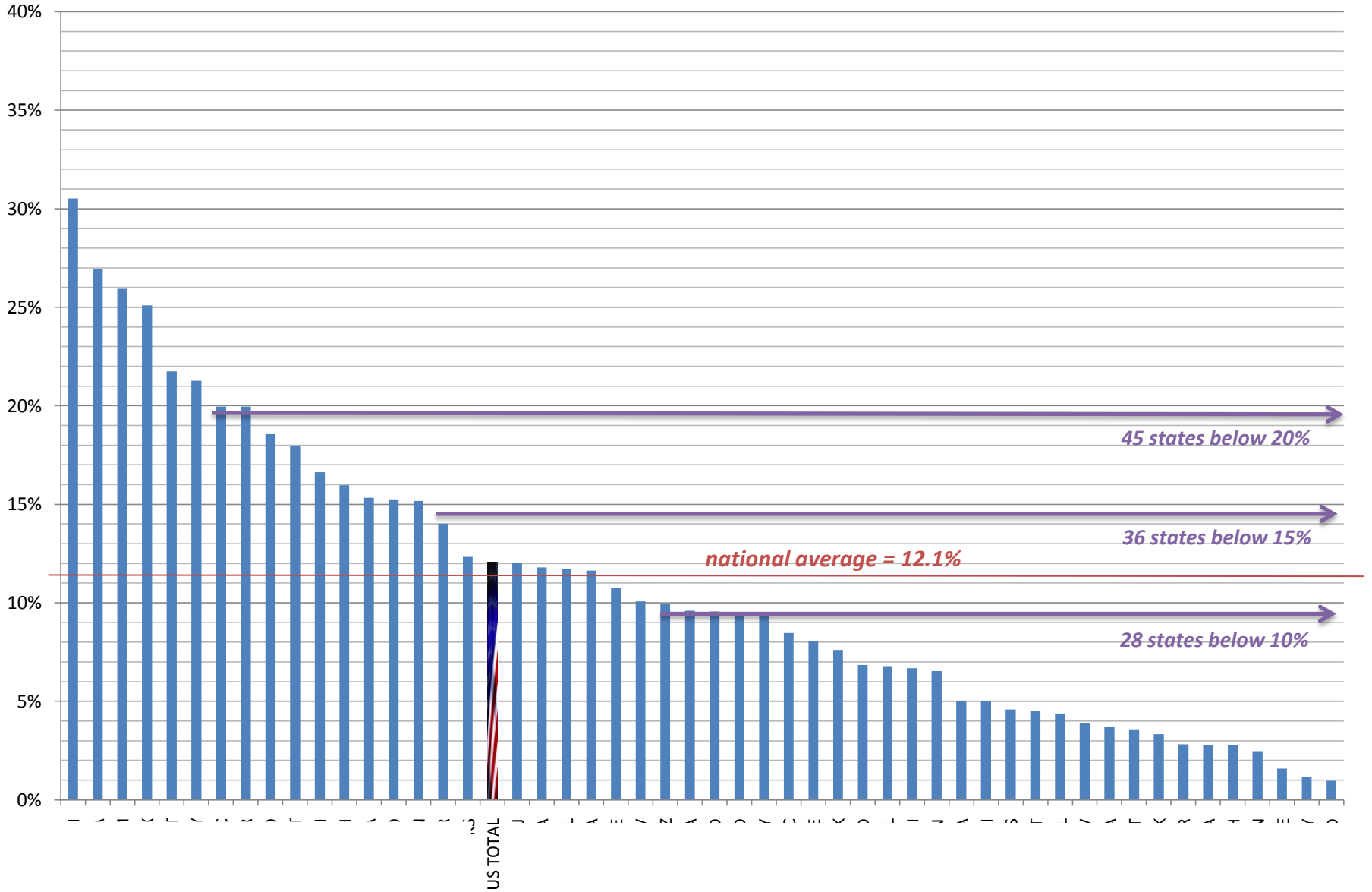
- Unliquidated Obligations

	5/31/12	5/1/13	
– Loan Fund ULO	\$1.895 Billion	\$ 1.546 Billion	
– Set-Aside ULO	<u>\$0.363 Billion</u>	<u>\$ 0.334 Billion</u>	—————→ \$378 Million Reduction
– Total ULO	\$2.258 Billion	\$ 1.880 Billion	

- **Thank you** for your focus on reducing ULO over the last 1 ½ years!
 - National Avg “legacy” ULO **dropped from 15.3% to 12.1%** of cumulative awarded grants
 - **Need continued attention on reducing \$1.880 Billion of legacy ULO**
- 17 states hold 68% of ULO as of 5/1/13

DWSRF ULOs as a Percent of States' Total Grant Awards

as of 5/1/13



Status of Inspector General Audit

- Objective: identify actions being taken to reduce ULOs.
- Preliminary research objectives:
 - Has the EPA identified the barriers to states using DWSRF within a reasonable amount of time?
 - Have the EPA and state actions taken to address large balances of DWSRF unliquidated obligations reduced such obligations?
 - Do the EPA's internal controls to manage the expenditure of funds and unliquidated obligations for the DWSRF address the pace of expenditures?

OIG Audit - Continued

- Audit To-Date
 - Initiated in March 2013
 - Met with HQ then Region 9, CA & HI – Spring 2013
 - Review included:
 - Intended Use Plans
 - Project Priority Lists
 - Fundable Lists
 - Program Evaluation Reports
 - NIMS Reports
 - IGMS Monitoring Reports
 - Programmatic Reports
- Expanded Audit (* denotes on-site interviews)
 - Region 1 – New Hampshire and Connecticut*
 - Region 6 – Texas and New Mexico*
 - Region 7 – Missouri*
 - Region 10 – Washington

OIG Audit - Continued

- Initial Results
 - States taking action, reduced ULOs, more loans made – obvious partnership of EPA and States
 - States’ Fundable Lists have not reflected projects to be funded, but now seeing evidence of change to “ready to proceed” projects
 - Cash-flow management practices being adopted
- Draft Report – February 2014

Potential Consequences of Continued High ULO

- Congressional rescissions reducing grants
- Lower Congressional appropriations
- Continued scrutiny of state operations

Along with

- Loss of purchasing of power
- No interest earning while in Federal Treasury

Proposed Framework for State DWSRF ULO Reduction

- **Elements:** State, Regional and Headquarters elements for reducing ULO, identified below, may constitute a national program approach for achieving significant DWSRF ULO reductions within a reasonable timeframe.
- **Framework:** Goals for ULO reduction proposed:
 - Full liquidation of “legacy” ULO (unspent funds from all cap grants prior to FY14 grants) by 9/30/16 (~3 yrs)
 - Future cap grant funds fully liquidated within 2 years of award, starting with states’ FY14 grants

Proposed State Elements of ULO Reduction Framework

- States with best practices provide, as requested, advice to states with high ULO on funds management approaches.
- States continue to take their cap grants in the federal fiscal year of appropriation.
- All states move toward a cash-flow management business model or an equivalent approach.
 - Forecast loan demand and repayment stream.
 - Use current dollars from most recent grants and repayments to fund current invoices.
 - Fund projects only if they are ready to proceed and bypass projects on the fundable list until they are ready.
 - Work with bypassed projects to get them ready to proceed.

Proposed EPA Elements of Framework

- EPA Regions identify best practices and promote sharing among states
- EPA Regions identify obstacles needing special attention
- EPA Regions make monthly ULO reports available to states and evaluate states' progress in ULO reduction, taking action as necessary
- EPA HQ obtains input from states and regions on obstacles and practices and develops tools for managing reduction of ULO
- EPA HQ holds webinars presenting tools with assistance from states successfully using cash flow management approach

Input/Feedback Needed

- Timeframe for ULO reduction
- Change of business practices
 - Cash-flow business management
 - Pipeline of “ready-to-proceed” projects
- EPA proposal as strategy in January 2014

Questions/Contact

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