

CLEAN WATER STATE REVOLVING FUND DEPARTMENT OF ENVIRONMENTAL QUALITY STATE OF LOUISIANA ANNUAL REPORT FOR STATE FISCAL YEAR 2011

INTRODUCTION

The Louisiana Department of Environmental Quality (LDEQ) is a department within the Executive Branch of Government for the State of Louisiana. In compliance with the U.S. Environmental Protection Agency (EPA) rules and regulations and federal grant requirements, the LDEQ submits the Clean Water State Revolving Fund (CWSRF) Annual Report for the State's fiscal year ending June 30, 2011 (FY11). This report describes how the LDEQ has met the goals and objectives identified in the 2011 Intended Use Plan (IUP) and our grant agreement.

The Financial Services Division (FSD) and the Business, Community Outreach and Incentives Division (BCOID) within LDEQ are responsible for administering the CWSRF program in the State of Louisiana. The CWSRF provides assistance to municipalities in the planning and development, financing and implementation of wastewater improvements infrastructure. Engineering oversight, design review, inspection services, environmental assessment services, and program administration are provided by the BCOID. Grant management, loan coordination and all accounting functions are provided by the FSD. All efforts are directed toward improving water quality by assisting communities to meet established effluent limits and achieve the goals of the Clean Water Act.

EXECUTIVE SUMMARY

Since inception of the program in 1988, the CWSRF has been awarded 25 federal grants from EPA. These grants are available through the EPA's Automated Clearing House Payment System (ACH) and the Automated Standard Application for Payments (ASAP). These grants are authorized by Title VI of the Clean Water Act, as amended in 1987 and require matching funds from the state. As of June 30, 2011, the EPA has awarded grants of \$377,972,923 to the LDEQ, which includes \$15,000 of in kind dollars and \$43,081,400 of American Recovery and Reinvestment Act (ARRA) dollars. Of total grant amounts awarded, \$345,282,655 has been drawn for loans and administrative expenses. The LDEQ has provided matching funds of \$67,511,770 (Note 7).

The LDEQ has provided its required state match on Federal grant awards with State General Fund appropriations, Capital Outlay appropriations, tobacco settlement funds and bond proceeds.

Under the terms of the federal capitalization grants to the LDEQ, four percent (4%) of the award is allocated to fund the administrative costs of operating the CWSRF program. At June 30, 2011, a balance of \$721,577 (note 8) in unexpended 4% funds was available for administration. Also, an administrative fee of 0.5% is assessed on all outstanding loan balances. These fees are collected and held outside the CWSRF to administer the program.

The LDEQ operates the CWSRF as a direct loan program where Federal and State monies are lent directly to municipalities.

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GOAL STATEMENTS

A. Long-Term Goals

The CWSRF continues to maintain long-term goals to meet water quality standards and ensure the long-range integrity of the fund.

Goal 1: Provide financial assistance to municipalities and other eligible recipients in pursuing statewide compliance with Federal and State water quality standards, assist borrowers in complying with the enforceable requirements of the CWA and to reach the goal of eliminating discharge of pollutants into the State's waters.

To ensure that the benefits of the CWSRF program are felt statewide, the LDEQ evaluates geographical diversity along with compliance issues of our municipalities. The LDEQ also targets projects where there is an opportunity to eliminate any imminent threats to human health and the environment or areas that have direct or indirect impacts to impaired waterways identified on the EPA approved 2006 Louisiana Water Quality Integrated Report.

The LDEQ closed 17 loans in FY11 totaling \$89,535,360. These projects were spread over 15 parishes and 17 different municipalities. By utilizing this comprehensive evaluation and funding structure, the LDEQ is able to distribute funding to qualified recipients across the state and make widespread advances in achieving compliance with Federal and State water quality standards.

Goal 2: To promote expanded eligibility under Title VI of the Clean Water Act that allows financial assistance for additional project categories. These additional project categories include non-point sources, reconstruction of facilities, facilities needed to accommodate population growth, estuary, and groundwater-related needs.

The LDEQ continues to promote the wetland assimilation process as a means of eliminating discharges to waterways and enhancing and improving wetlands. The LDEQ is conducting a feasibility study in the southwestern region of the state. The purpose of the study is to explore the possibility of combining two wastewater treatment systems into one advanced system. The effluent from this system will provide nourishment to a stressed wetland thereby restoring the wetlands. This potential system will also be receiving additional industrial discharges resulting in improving water quality and promoting economic development in the region. LDEQ continues to solicit projects that qualify for the Green Project Reserve (GPR). This includes Non Point Source improvements, water and energy conservation and wastewater recycling. These projects will be used to satisfy the GPR requirements.

LDEQ is promoting the success of the GPR projects from FY10 as a means of imploring applicants to submit "green" projects. In addition, LDEQ has submitted 5 green projects to EPA for approval.

Current green projects include these projects that are still in construction or were completed in FY11:

- West Monroe- Reuse treated wastewater at a paper manufacturing facility, which will significantly reduce the drawdown of the Sparta Aquifer, a sole source drinking water aquifer;
- Grand Isle- Installation of non-point source improvements including rain cisterns, pervious parking, rain gardens and vegetative swales;
- Several water conservation projects that include the installation of new or more efficient water meters in Killian, Carencro, Baker, Vinton, and Youngsville.

Goal 3: To maintain the fiscal integrity of the Fund and to assure its continuous enhancements in perpetuity through maintaining net assets equal to federal capitalization grants and state matching funds and the use of a cash flow modeling plan.

The CWSRF prepares and maintains its accounting records on the full accrual basis with accounting principles generally accepted in the United States as applied to governmental units. Annually the Office of the Legislative Auditor of the State of Louisiana performs an audit on the CWSRF in accordance with Governmental Auditing Standards.

B. Short-Term Goals

The LDEQ will pursue the following short-term goals in an effort to continually improve the CWSRF program:

Goal 1: Promote and advance wastewater treatment facility improvements in order to meet the requirements of the CWA through compliance assistance.

The LDEQ continues outreach efforts to reach communities across the state in order to promote the CWSRF program as a means of assistance available to them in maintaining compliance with the Clean Water Act. These efforts included meeting with mayors and local elected officials in the state in their respected communities, and informing them of the CWSRF program.

Goal 2: Communicate the availability of the CWSRF Program by the LDEQ personnel through outreach to individual municipalities across the state of Louisiana, and participation in conferences or conventions, as well as promotion of the program via the LDEQ website.

LDEQ staff participated in the annual conferences for the Louisiana Police Jury Association meeting and the Louisiana Municipal Association by displaying a booth to promote the CWSRF to local communities. The LDEQ also works with Rural Utilities, Community Block Grants, and the Governor's Office of Rural Developments, jointly funding projects throughout the State.

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Goal 3: Present CWSRF program information, stressing nonpoint source pollution control and the protection of estuaries at a minimum of two (2) conferences and conventions during the year. The LDEQ will provide marketing materials such as brochures and promotional items. The CWSRF staff will be available to present information about the CWSRF program and obtain contacts for future meetings with potential borrowers. These conference events target local municipalities and local police juries with publically owned wastewater treatment facilities. Additionally, during these conferences and conventions, the CWSRF staff will interact with representatives of the municipalities to discuss their respective needs.

The LDEQ staff participated in the annual conferences for the Louisiana Police Jury Association meeting and the Louisiana Municipal Association by displaying a booth to promote the CWSRF to local communities. The LDEQ had staff members on hand at both conferences to pass out brochures and promotional items and answer any questions or concerns regarding the CWSRF program.

Goal 4: Participate in the Louisiana Waste Water Joint Funding Committee (LWWJFC)—a joint effort between the Louisiana Community Development Block Grants, US Department of Agriculture, Louisiana Department of Health and Hospitals (Drinking Water State Revolving Fund), and the LDEQ. The mission of the LWWJFC is to assist applicants in securing funding for water and wastewater projects. The committee members will:

- **Review project information and determine which funding programs may provide assistance to the applicants.**
- **Meet monthly throughout the year to review Intent to File applications.**

In FY11, the LWWJFC met 12 times (monthly) and reviewed applications received by all participating agencies. Through sharing of applications and the pursuit of joint funding efforts, participating agencies were able to better utilize available funding to best serve the state. We believe that working in unison with the other loan programs will also offer further promotion of our program that will result in future loans and help to sustain the new increased pace of LDEQ's CWSRF program.

Goal 5: Close at least 14 loans totaling more than \$65,000,000.

The LDEQ finalized 17 municipal loan projects totaling \$89,535,360.

Goal 6: Submit proposal to EPA Region 6 to offer financing for up to 30 years.

The LDEQ is working closely with its contracted financial advisor. They have submitted a draft extended term proposal for the department's review and revision. In addition, LDEQ is in the rulemaking process to revise its CWSRF regulation (Title 33.IX.2101). Part of the revision is to allow new financing options. We intend to finalize the proposal and submit it to the EPA Region 6 and Headquarters by June 30, 2012.

Goal 7: Apply for the Federal Fiscal Year (FFY) 2010 and 2011 Capitalization Grants in FY 2011.

The LDEQ applied for the FFY 2010 Capitalization Grant on June 11, 2010 and the funds were awarded on July 19, 2010. LDEQ also applied for the FFY 2011 Capitalization Grant on June 30, 2011, however the application will be resubmitted once our FY 2012 IUP has been submitted.

Goal 8: Solicit projects that address green infrastructure, water or energy efficiency improvements or other environmentally innovative activities as required by FFY 2010 appropriation.

LDEQ's comprehensive outreach campaign encompasses the solicitation of green infrastructure, water and energy efficiency and other innovative activities inclusive of those qualifying for the Green Project Reserve. Projects were solicited during participation in conferences including the Police Jury Association and Louisiana Municipal Association Conferences among others, and numerous email blasts and conference calls with stakeholders. LDEQ has submitted 5 green projects to EPA on our amended FY11 IUP. LDEQ will work closely with Region 6 to ensure the projects identified in the FY11 IUP qualify for the GPR. Once the projects are approved we will initiate the process of loan closing.

Goal 9: Issue a Revenue Bond to provide matching funds for Federal capitalization grants, as necessary.

The LDEQ issued a Revenue Bond in the amount of \$4,500,000 on May 19, 2011 to provide matching funds for Federal capitalization grants.

Goal 10: Provide subsidization to projects funded as required by FFY 2010 appropriation.

In its efforts to meet this requirement, LDEQ will provide subsidization to cover the portion of funded projects that qualify for the Green Project Reserve. These funds will be provided with 100% principal forgiveness as identified in the FFY11 IUP. The total funding for the green projects will satisfy the required subsidy amount.

DETAILS OF ACCOMPLISHMENTS

A. Fund Financial Status

1. Loans Awarded - The LDEQ finalized 17 loans totaling \$89,535,360.
2. Binding Commitments - The LDEQ signed 17 binding commitments in FY11 totaling \$89,535,360.
3. Sources of Funds - A total of \$46,685,223 (Note 7) in grant revenues was drawn and made available to the LDEQ during FY11. This revenue was drawn from

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Grant CS-22002-06, CS-220002-08, CS-220002-09, CS-220002-10 and 2W96694101-2. The remaining grant balance for FY11 is \$32,690,268 of which \$2,849,809 is for ARRA projects (note 7). Other funds available in FY11 were \$31,681,776 from principal repayments (exhibit 2), \$681,959 interest earned on cash in state treasury and \$6,680,127 interest on outstanding loan balances.

4. Expenses of the CWSRF – The LDEQ incurred administrative expenses of \$915,099 in FY11.

B. Assistance Activity

Exhibits 1 through 3 illustrate the assistance level and financial activity of the CWSRF since inception of the program.

Exhibit 1A shows a list of loans that have closed by the CWSRF program. Exhibit 1B provides data on the State's binding commitment requirements. Exhibit 2 shows principal collections from borrowers during FY11, and finally exhibit 3 shows disbursements made during FY11 to loan projects for design and construction.

C. Provision of the Operating Agreement / Conditions of the Grant

The LDEQ agreed to several conditions in the Operating or Grant Agreements. The following conditions have been met and are self-explanatory:

1. Agreement to Accept Payments
2. State Laws and Procedures
3. Use of the ACH and ASAP
4. Annual Audit
5. Annual Report
6. Annual Review

The following conditions are described more fully below:

1. Provide a State Match

Since inception of the program in 1988, the CWSRF has been awarded 25 federal grants from EPA. As of June 30, 2011, the EPA has awarded grants of \$377,972,923 to the LDEQ, which includes \$15,000 of in kind dollars and \$43,081,400 of American Recovery and Reinvestment Act (ARRA) dollars. Of total grant amounts awarded, \$345,282,655 has been drawn for loans and administrative expenses. The LDEQ has provided matching funds of \$67,511,770 (Note 7).

In FY95, Louisiana received EPA approval to issue up to \$15,000,000 in state match revenue bonds secured by revenues of the CWSRF. This state match financing arrangement was similar to a letter of credit in that bond funds were available to be drawn as needed. Bond funds are immediately deposited into the CWSRF fund when drawn. In FY02 the state set up bonds of up to \$12,000,000 that were issued as state match.

Another bond agreement in the amount of 10,000,000 was made in FY07 and amended to \$20,000,000 in FY10, of which \$4,500,000 were issued during FY11. As of June 30, 2011, \$40,758,184 in net proceeds from these bond issues was deposited into the fund as state match. No liability exists for these bonds as of June 30, 2011.

The LDEQ has deposited sufficient cash into the CWSRF to meet its proportionate share prior to accessing grant monies made available through the Federal ACH. The cumulative amount deposited into the CWSRF for State Match is \$67,511,770.

2. Binding Commitments With-in One Year

The LDEQ met its binding commitment requirement of this reporting period. At the end of this reporting period, actual cumulative commitments are \$739,474,382, and required cumulative commitments are \$426,689,908. The LDEQ has not only met 120% binding commitment requirement per the EPA capitalization grant agreement, but has exceeded the 120% requirement by an additional 277%. In effect, LDEQ's binding commitment for FY11 was 397%. This cumulative excess totals \$326,664,618 of actual binding commitments over required binding commitments. Exhibit 1B provides information on binding commitment activity.

3. Timely and Expeditious Expenditures

The LDEQ disbursed all cash draws and other available CWSRF funds in a timely and expeditious manner. The LDEQ is monitoring projects to ensure timely initiation of operations in accordance with the established schedules.

4. First Use of Funds for Enforceable Requirements

The first use requirements have been met. All National Municipal Projects in Louisiana are in categories identified in 40 CFR 35.3135(e) (3). In the event that any of the National Municipal Projects are no longer in compliance, and the equivalency requirements have not been met for all capitalization grants, then such projects shall be offered assistance through the CWSRF process before other projects.

5. Compliance with Title II Requirements

All projects in the Exhibit 1A followed by an asterisk meet equivalency requirements. Since the inception of the program twenty-one loans totaling \$79,998,000 were funded as equivalency projects that meet the Title II requirements. All Title II requirements have been met, and Title II is no longer applicable. The last Title II equivalency project was funded June 1995.

6. Disadvantaged Business Enterprises (DBE) Requirements

The LDEQ monitors all loan recipients for compliance with DBE fair share efforts. The BCOID reviews all construction contracts prior to award to insure compliance with the six affirmative action steps and requires that contractors furnish the LDEQ with a copy of

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all DBE subcontracts.

This requirement is emphasized to the loan recipients in pre-construction conference and also in the instructions for processing pay requests. DBEs usually represent small businesses that are sub-contracted to perform smaller jobs. In FY11, 19 sub-agreements for construction services from larger contractors were awarded to DBEs.

Additionally, the LDEQ provides current website links to the Louisiana Department of Transportation and Development's Unified Certification Program which contains a current listing of DBEs in the state.

7. Other Federal Authorities

The LDEQ and all recipients of CWSRF funds are required to comply with applicable Federal authorities and regulations. Completed loan agreements include these federal assurances.

8. State Environmental Review Process (SERP)

The LDEQ conducts environmental reviews in accordance with the SERP on all projects submitted for funding. There were 22 environmental reviews finalized in FY11.

9. Cash Draw and Disbursement Schedule/Commitment

Generally, loan disbursements are made by drawing Federal funds into the CWSRF before the payment is made to the local municipality. Administrative costs are paid by the LDEQ and then recovered after the administrative charges are totaled for a particular month. Typically, at the end of a fiscal year, LDEQ may have (1) accumulated some administrative expenses and not been reimbursed from ACH and in other cases, (2) disbursed funds to municipalities and not been reimbursed from ACH, and (3) received payment requests for projects, but have not disbursed the funds. At the end of FY11 \$428,095 was due from the Federal ACH because of these timing differences. These matters are reconciled within the following accounting month.

10. Accounting and Auditing Procedures

The State of Louisiana requires the LDEQ to utilize the Integrated Statewide Information System (ISIS), a comprehensive financial management system. ISIS has been designed to meet the common accounting, management, and informational needs of all departments and branches of Louisiana State Government, including the central fiscal control agencies. ISIS provides accounting, reporting, procedures, forms, cash and budgetary control over all financial transactions including the financial operations of the CWSRF program and other federal programs.

Beginning in FY06, the LDEQ began utilizing program manager software which tracks all aspects of the CWSRF. Program Manager also provides numerous financial and

tracking reports, as well as billing and forecasting functions.

All financial transactions including accounting, fiscal and audit procedures conform to Generally Accepted Accounting Standards as promulgated by the Governmental Accounting Standards Board. For the fiscal year ending June 30, 2011, the LDEQ has contracted with the Office of the Legislative Auditor in the State of Louisiana to have a financial and compliance audit conducted on its CWSRF program. A report with an opinion on the financial statements, a report on internal controls, and a report on compliance with the Title VI of the Clean Water Act will be available subsequent to the end of the fiscal year.

Loan recipients are required to maintain adequate financial records in accordance with accounting principles generally accepted in the United States, and to make these records available to the LDEQ and EPA. As required by State law, recipients must have an audit conducted on their books and accounts by an independent firm of certified public accountants. These audited financial statements are then submitted to the LDEQ.