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RECOVERY ACT
Preliminary Observations on the Use of Funds for Clean and Drinking Water Projects

Statement of David C. Trimble, Acting Director
Natural Resources and Environment
RECOVERY ACT

Preliminary Observations on the Use of Funds for Clean and Drinking Water Projects

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) and $2 billion for the agency’s Drinking Water SRF.

This testimony is based on GAO’s ongoing review of clean and drinking water projects. It provides preliminary observations on (1) the status and use of Recovery Act SRF program funds nationwide and in nine selected states, (2) jobs funded by the Recovery Act SRF programs and federal and state efforts to oversee the programs, and (3) challenges, if any, that states have faced in implementing Recovery Act requirements.

For this ongoing work, GAO is, among other things, obtaining and analyzing EPA nationwide data on the status of Recovery Act clean and drinking water funds and projects, as well as information from a nonprobability sample of nine states that it had not reviewed in previous bimonthly reports. These states represent all but one of EPA’s 10 regions. GAO is also interviewing EPA and state officials about their experiences with the Recovery Act clean and drinking water funds.

What GAO Found

Nationwide, the 50 states have awarded and obligated the almost $6 billion in Clean Water and Drinking Water SRF program funds provided under the Recovery Act and reported using the majority of these funds for sewage treatment infrastructure and drinking water treatment and distribution systems, according to EPA data. These funds supported more than 3,000 water quality infrastructure projects nationwide. Since the Recovery Act was passed, states have drawn down $3.1 billion (79 percent) of the Clean Water SRF program funds and $1.7 billion (83 percent) of the Drinking Water SRF program funds provided under the Recovery Act. States also met the act’s requirements that at least (1) 20 percent of the funds provided be used to support “green” projects, such as those that promote energy or water efficiency, and (2) 50 percent of the funds provide additional subsidies in the form of loans for which the principal is forgiven, loans for which the repayment is less than the principal (negative interest loans), or grants. In the nine states GAO reviewed, Recovery Act funds have paid for 419 infrastructure projects that help to address major water quality problems, although state officials said that in some cases, Recovery Act requirements changed their priorities for ranking projects or the projects selected. For example, because some projects could not meet the act’s requirement to have funds under contract by February 17, 2010, some states provided Recovery Act funds to lower-ranked projects. Some states provided funding to these priority projects in other ways, such as through state grants or non-Recovery Act SRF funds. In addition, although not required by the Recovery Act, the nine states used 24 percent of the funds they received to pay for projects in economically disadvantaged communities, the majority of which was provided as additional subsidies.

States reported that the Recovery Act SRF programs funded an increasing amount of full-time equivalent (FTE) positions from the quarter ending December 2009 through the quarter ending June 2010, from 6,000 FTEs to 15,000 FTEs, declining to 6,000 FTEs for the quarter ending in March 2011 as projects were completed. EPA and the states are overseeing Recovery Act projects and funds using EPA’s oversight plan, updated in June 2010 in response to recommendations GAO made to specify procedures for oversight.

The fiscal year 2010 and 2011 appropriations for the SRF programs continue the green project and additional subsidy requirements. State officials GAO interviewed identified challenges in implementing these requirements for the Clean and Drinking Water SRF programs, including:

- **Encouraging green projects.** Officials in some states said that the goal of supporting green projects is important but that the percent of funds specifically dedicated to green funds (20 percent) was difficult to achieve.

- **Providing subsidies.** Officials in several of the nine states noted that when monies are not repaid into revolving funds to generate future revenue for these funds, the SRF program purpose changes from primarily providing loans for investments in water infrastructure to providing grants.

View GAO-GAO-11-642T or key components. For more information, contact David C. Trimble at (202) 512-3841 or trimbled@gao.gov.
Mr. Chairman, Ranking Member, and Members of the Committee:

I am pleased to be here today to discuss the preliminary results of our ongoing work examining states’ use of funds made available for clean and drinking water projects under the American Recovery and Reinvestment Act of 2009 (Recovery Act). Among other things, the purposes of the Recovery Act were to preserve and create jobs, promote national economic recovery, and provide long-term economic benefits through infrastructure investments, including water infrastructure. The Recovery Act mandates that GAO conduct bimonthly reviews of the funds used by states and determine whether the act is achieving its stated purposes. We are completing the tenth bimonthly review responding to the act’s mandate, which updates our May 2010 report and adds new information on the use of the Recovery Act funds provided for the Clean and Drinking Water State Revolving Fund (SRF) programs. Over the past 2 years, our oversight of programs funded by the Recovery Act has covered a wide range of programs, including Medicaid, education, Head Start, highways and transit, and environmental and energy programs.

My statement today is based on an ongoing review of clean and drinking water projects under the Recovery Act and examines the (1) status and use of Recovery Act SRF program funds nationwide and in nine selected states, (2) jobs funded by the Recovery Act SRF programs and federal and state efforts to oversee these programs, and (3) challenges, if any, that states have faced in implementing Recovery Act requirements. For our ongoing work, we are obtaining and analyzing nationwide data from the Environmental Protection Agency (EPA) on the status of Recovery Act funds.

2As of April 8, 2011, the Department of the Treasury had paid out $208.7 billion in Recovery Act funds for use by states and localities. For updates, see http://gao.gov/recovery.
4We last reported on the use of Recovery Act Clean and Drinking Water SRF program funds for water in GAO, Recovery Act: States’ and Localities’ Uses of Funds and Actions Needed to Address Implementation Challenges and Bolster Accountability, GAO-10-604 (Washington, D.C.: May 26, 2010).
6These states were Alabama, Connecticut, Maryland, Michigan, Missouri, New Mexico, Nevada, Washington State, and Wyoming. We did not select any states in EPA Region 2—which includes New Jersey, New York, and Puerto Rico—because we had reviewed New Jersey and New York in previous Recovery Act reports.
Both the Clean Water and Drinking Water SRF programs authorize EPA to provide states and local communities with independent and sustainable sources of financial assistance, such as low- or no-interest loans, for projects that protect or improve water quality and that are needed to comply with federal drinking water regulations and protect public health. The Clean Water SRF program was established in 1987 under the Clean Water Act, which was enacted to protect surface waters, such as rivers, lakes, and coastal areas, and to maintain and restore the physical, chemical, and biological integrity of these waters. The Drinking Water SRF program was established in 1996 under the Safe Drinking Water Act, which was enacted to establish national enforceable standards for drinking water quality and to guarantee that water suppliers monitor water to ensure compliance with standards.
The Recovery Act provided $6 billion for EPA’s Clean Water and Drinking Water SRF programs. This amount represents a significant increase over the federal funds awarded to the base SRF programs in recent years. From fiscal years 2000 through 2009, annual appropriations averaged about $1.1 billion for the Clean Water SRF program and about $833 million for the Drinking Water SRF program. The Recovery Act funds represent a significant federal investment in the nation’s water infrastructure at a time when, according to a 2010 Congressional Budget Office report, overall spending on infrastructure has been declining, and when reported problems with the quality and safety of water supplies have raised questions about the condition of the nation’s infrastructure.

In addition to increasing funds, the Recovery Act included some new requirements for the SRF programs. First, projects funded with Recovery Act SRF program funds had to be under contract—ready to proceed—within 1 year of the act’s passage, or by February 17, 2010. Second, states had to use at least 20 percent of these funds as a “green reserve” to provide assistance for green infrastructure projects, water- or energy-efficiency improvements, or other environmentally innovative activities. Third, states had to use at least 50 percent of Recovery Act funds to provide “additional subsidies” for projects in the form of principal forgiveness, grants, or negative interest loans (loans for which the rate of interest is such that the total payments over the life of the loans are less than the principal of the loans). Uses for these additional subsidies can include helping economically disadvantaged communities build water projects, although these uses are not a requirement of the act. Congress incorporated two of these requirements—green projects and additional subsidies—into the fiscal year 2010 and 2011 non-Recovery Act, or base, SRF program appropriations.

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7The $6 billion in Recovery Act funds includes about $39 million in Clean Water Act (CWA) Section 604(b) Water Quality Management Planning Grants. Section 604(b) of the CWA requires the reservation each fiscal year of a small portion of each state’s Clean Water SRF allotment—usually 1 percent—to carry out planning under Sections 205(j) and 303(e) of the CWA. States generally use 604(b) grants to fund regional comprehensive water quality management planning activities to improve local water quality. In addition, the $6 billion included a small amount of funding for trust territories, tribal governments, and the District of Columbia. Any reference to Recovery Act funds in this report excludes these water quality planning, territorial, tribal, and District of Columbia funds.

In addition to program-specific provisions, water projects receiving Recovery Act funds had to meet the act’s Buy American and Davis-Bacon provisions. The Recovery Act generally requires that all of the iron, steel, and manufactured goods used in the project be produced in the United States, subject to certain exceptions. Federal agencies could issue waivers for certain projects under specified conditions, for example, if using American-made goods was inconsistent with the public interest or if the cost of goods was unreasonable; the act limits the “unreasonable cost” exception to those instances when inclusion of American-made iron, steel, or other manufactured goods would increase the overall project cost by more than 25 percent. Furthermore, agencies do not need to use American-made goods if they were not sufficiently available or not of satisfactory quality. In addition, the Recovery Act applied Davis-Bacon provisions to all Recovery Act-funded projects, requiring contractors and subcontractors to pay all laborers and mechanics at least the prevailing wage rates in the local area where they were employed, as determined by the Secretary of Labor. Contractors were required to pay these workers weekly and submit weekly certified payroll records.

To enhance transparency and accountability over Recovery Act funds, Congress and the administration built numerous provisions into the act, including a requirement that recipients of Recovery Act funding—including state and local governments, private companies, educational institutions, nonprofits, and other private organizations—report quarterly on a number of measures. (Recipients, in turn, may award Recovery Act funds to subrecipients, which are nonfederal entities.) These reports are referred to as “recipient reports,” which the recipients provide through one Web site, www.federalreporting.gov (Federalreporting.gov) for final publication through a second Web site, www.recovery.gov (Recovery.gov). Recipient reporting is overseen by the responsible federal agencies, such as EPA, in accordance with Recovery Act guidance provided by the Office of Management and Budget (OMB). Under this guidance, the federal agencies are required to conduct data quality checks of recipient data, and recipients can correct the data, before they are made available on Recovery.gov. Furthermore, additional corrections can be made during a continuous correction cycle after the data are released on Recovery.gov.

A significant aspect of accountability for Recovery Act funds is oversight of spending. According to the federal standards of internal control, oversight should provide managers with current information on expenditures to detect problems and proactively manage risks associated with unusual spending patterns. In guidance issued in February 2009, OMB required each federal agency to develop a plan detailing the specific activities—including monitoring activities—that it would undertake to manage Recovery Act funds. EPA issued its first version of this plan in May 2009, as required, and updated this document as OMB issued new guidance.

Nationwide, the 50 states have awarded and obligated the almost $6 billion in Clean Water and Drinking Water SRF program funds provided under the Recovery Act and reported using the majority of these funds for sewage treatment infrastructure and drinking water treatment and distribution systems, according to EPA data. In the nine states we reviewed, states used these funds to pay for infrastructure projects that help to address major water quality problems, although state officials said that in some cases, Recovery Act requirements changed their priorities or the projects selected for funding. The nine states also used their Recovery Act funding to help economically disadvantaged communities, although officials indicated that they continue to have difficulty helping these communities.


12The most recent version of the plan is EPA, Environmental Protection Agency Recovery Act Plan: A Strong Economy and a Clean Environment (Washington, D.C.: June 1, 2010).
As of March 30, 2011, states had awarded funds for contracts and obligated the $4 billion in Clean Water SRF program funds and $2 billion in Drinking Water SRF program funds provided under the Recovery Act. As we reported in May 2010, EPA indicated that all 50 states met the Recovery Act requirement to award Recovery Act funds to contracted projects by February 17, 2010, 1 year after the enactment of the Recovery Act. In the 2 years since the Recovery Act was passed, approximately 79 percent, or $3.1 billion, of the Clean Water SRF program funds and approximately 83 percent, or $1.7 billion, of the Drinking Water SRF program funds have been drawn down from the Treasury by states.

Across the nation, the states have used the $6 billion in Recovery Act Clean and Drinking Water SRF program funds to support more than 3,000 water quality infrastructure projects. As shown in figure 1, the states used the majority of their Recovery Act Clean Water SRF program funds to pay for secondary and advanced treatment at wastewater treatment plants, as well as projects to prevent or mitigate sanitary sewer overflow. Wastewater treatment involves several processes, including primary treatment to remove suspended solids; secondary treatment to further remove contaminants using biological processes; and tertiary or advanced treatment to remove additional material in wastewater, such as nutrients or toxic chemicals. Sanitary sewer overflows can occur as a result of inclement weather and can pose significant public health and pollution problems, according to EPA.

13GAO-10-604.
Nonpoint source pollution refers to water pollutants from nonpoint sources—diffuse sources from a variety of land-based activities, such as timber harvesting, agriculture, and urban development.

As shown in figure 2, the states used about half of their Recovery Act Drinking Water SRF program funds to pay for projects to transmit and distribute drinking water, including pumps and pipelines to deliver water to customers. States used about 40 percent of their funds for projects to treat and store drinking water.
In addition to requiring that projects awarded funds be under contract within 1 year of the act’s passage, the Recovery Act required that states use at least 20 percent of their funds for “green” projects. According to EPA data, all states met the 20-percent green requirement, with $1.1 billion of total Clean Water SRF program funds going to green projects and $544 million of total Drinking Water SRF program funds going to green projects. The goal of supporting green projects is to promote green infrastructure, energy or water efficiency, and innovative ways to sustainably manage water resources. Green infrastructure refers to a variety of technologies or practices—such as green roofs, porous pavement, and rain gardens—that use or mimic natural systems to enhance overall environmental quality. In addition to retaining rainfall and snowmelt and allowing them to seep into
groundwater, these technologies can mitigate urban heat islands,\textsuperscript{14} and sequester carbon. Figure 3 shows the amount of Clean Water and Drinking Water SRF program funds that states awarded to green projects by type of project.

\textbf{Figure 3: Total Recovery Act Funds Awarded to the 50 States for Green Projects under the Clean Water and Drinking Water SRF Programs, by Type of Project}

Nationwide, states also met the Recovery Act requirement to provide at least 50 percent of the Clean Water and Drinking Water SRF program funds as additional subsidies in the form of principal forgiveness, negative interest loans, or grants. Of the total Recovery Act funds awarded, 76\textsuperscript{14}Urban heat islands are metropolitan areas that are significantly warmer than the surrounding rural areas.
percent of Clean Water SRF Recovery Act funds and 70 percent of Drinking Water SRF Recovery Act funds were distributed as additional subsidies. Figure 4 shows the total Clean Water and Drinking Water Recovery Act funds awarded by states as principal forgiveness, negative interest loans, or grants. The remaining funds will be provided as low- or no-interest loans that will recycle back into the programs as subrecipients repay their loans.

Figure 4: Amount of Recovery Act Funds Awarded by the 50 States as Principal Forgiveness, Grants, or Negative Interest Loans and Low- or No-Interest Loans

[Bar chart showing the distribution of Recovery Act funds awarded by states as principal forgiveness, negative interest loans, or grants.]

Additional subsidies
- Principal forgiveness, negative interest loan, or grant
- Low or no interest loan

Source: GAO analysis of EPA data.
In the nine states we reviewed, Recovery Act Clean and Drinking Water SRF funding has been used to address the major clean and drinking water problems in the state. The nine states we reviewed received a total of about $832 million in Recovery Act SRF program funds—about $579 million for their Clean Water SRF programs and about $253 million for their Drinking Water SRF programs. In total, these funds supported 419 clean and drinking water projects. Officials in the states we reviewed said, however, that Recovery Act priorities—particularly the need for projects to be under contract 1 year after the passage of the Recovery Act or green projects—either changed their priorities for ranking and funding projects or changed the projects they funded.

To award SRF program funds, each of the nine states we reviewed used a system to score and prioritize water projects seeking funds to address water quality problems. To do this, states generally rank or group water infrastructure projects, submitted by local municipalities or utilities, using a system of points. The projects with the most points are considered the highest priority on the list of projects for funding and, in all but one state we reviewed, state officials used their ranking system to address major water problems. In most of the nine states we reviewed, compliance is a key aspect of their ranking system, allowing points to be awarded to infrastructure projects that help the states eliminate causes of noncompliance with federal or state water quality standards and permits. Officials in most of the nine states said that they generally obtain information on their water systems’ compliance with federal and state water quality standards through discussions with their program compliance staff and from state databases.

Officials in the nine states we reviewed told us that the Recovery Act requirements—the readiness of a project to proceed; the green project requirement; and, to a lesser degree, the Buy American and Davis-Bacon provisions—caused them to modify their ranking systems or otherwise modify the list of projects that receive Recovery Act funding.

Readiness of a project to proceed. In the nine states, officials included readiness to proceed and other Recovery Act requirements in their ranking

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15 Alabama officials indicated that the ranking system for their Clean Water program was developed in the 1980s to address impaired waters and did not reflect the state’s current clean water problems. The officials said that the state’s major water quality problem is now aging infrastructure and that they were planning to revise their ranking system based on the current water quality problems.
system and selected projects on the basis of that ranking system or said that they did not fund—or bypassed—top-ranked projects that were not ready to proceed to construction by February 17, 2010, 1 year after the passage of the Recovery Act. For example, Washington State’s two top-ranked clean water projects did not receive Recovery Act SRF program funds because they could not meet the February 2010 deadline. The projects were to decommission septic systems and construct a wastewater treatment plant to reduce phosphorus discharges to the Spokane River. In Wyoming, many of the projects that were not ready to proceed were water treatment plants, which state officials said take longer to design and plan for construction. Although these higher-ranked projects did not receive Recovery Act funds, at least two states were able to fund these projects in other ways, such as through state grants or non-Recovery Act SRF program funds.

Green project requirement. Three states listed green projects separately from other projects. For example, Washington State officials told us that they established a green projects category because they had anticipated that energy and water efficiency projects (green projects) would not score well under their ranking system, which focuses on water quality protection and improvements. Other states funded green projects ahead of higher-ranked projects. For example, Maryland bypassed many projects to fund the first green-ranked project on its list. Similarly, Nevada did not fund 11 higher-ranked projects and funded a lower-ranked drinking water project that had green components.

Buy American and Davis-Bacon provisions. State officials identified a few projects that did not proceed because potential subrecipients either did not want to meet one or more Recovery Act requirements, such as the Buy American and Davis-Bacon provisions, or did not want to increase the cost of their projects. For example, local officials in Alabama withdrew their application for a drinking water project because the project was already contracted without Buy American and Davis-Bacon wage requirements, and an addendum to the contract to meet the regulations would have increased the project’s cost. Similarly, officials in all nine states said that a few communities chose not to apply for or withdrew from the Recovery Act funding process to avoid paperwork or the additional costs associated with the act’s requirements. For example, Wyoming officials said that potential subrecipients for three clean water projects refused funding, citing time constraints or difficulty meeting Buy American requirements.
Although the Recovery Act did not require states to target Clean and Drinking Water SRF program funds to economically disadvantaged communities, six of the nine states that we reviewed distributed more than $123 million in clean water funds, and eight of the nine states distributed almost $78 million in drinking water funds, to these communities. This amount represents about 24 percent of the almost $832 million in Recovery Act funds that the states were awarded. As shown in table 2, a large majority of the funds provided to these communities were provided as additional subsidies—grants, principal forgiveness, and negative interest loans.

<table>
<thead>
<tr>
<th>SRF Programs</th>
<th>Total Clean and Drinking Water SRF projects funded</th>
<th>Number of projects funded in economically disadvantaged communities</th>
<th>Amount of SRF funds provided to economically disadvantaged projects</th>
<th>Percent of additional subsidies provided to economically disadvantaged projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clean Water</td>
<td>261</td>
<td>70</td>
<td>$123</td>
<td>82%</td>
</tr>
<tr>
<td>Drinking Water</td>
<td>158</td>
<td>63</td>
<td>$78</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>419</strong></td>
<td><strong>133</strong></td>
<td><strong>$201</strong></td>
<td><strong>83%</strong></td>
</tr>
</tbody>
</table>

Source: GAO analysis of state provided data.

*aThe nine states funded a total of 419 clean and drinking water projects; all 50 states funded more than 3,000 clean and drinking water projects.

According to officials in five states, they provided additional subsidies to economically disadvantaged communities because the communities would otherwise have had a difficult time funding projects. For example, officials in Nevada told us that clean and drinking water subsidies were directed to

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16States differ in how they define disadvantaged communities. In general, disadvantaged community status takes into account factors such as median household income and community size.

17In our May 2010 report, we found that the 14 states in that review provided $1.2 billion, or about 43 percent of total funds, for assistance in disadvantaged communities.

18In total, the nine states in our review provided more than $558 million of their Recovery Act funds—67 percent—in the form of additional subsidies to all projects. Of this money, 30 percent was awarded to projects in economically disadvantaged communities.
such communities because these communities not only have a difficult
time funding projects, they also have some of the projects with the highest
priority for addressing public health and environmental protection
concerns. New Mexico officials told us that they directed additional
drinking water subsidies to economically disadvantaged communities
because these communities have historically lacked access to capital. In
addition, officials in a few other states told us that small and economically
disadvantaged communities often lack the financial means to pay back
loans from the SRF programs or lack funds to pay for the upfront costs of
planning and designing a project. Officials in at least two states also said
that many small and economically disadvantaged communities even lack
full-time staff to help manage the water infrastructure.

Even with the additional subsidies available for projects, officials in a few
states said that small and economically disadvantaged communities found
it difficult to obtain Recovery Act funds. For example, Missouri officials
told us that the Recovery Act deadline was the single most important
factor hindering the ability of small and economically disadvantaged
communities from receiving funding. New Mexico officials also told us
that because small and economically disadvantaged communities typically
do not have funds to plan and develop projects, few could meet the
deadline and several projects that sought Recovery Act funds could not be
awarded funding owing to the deadline.

EPA’s Office of Inspector General (OIG) noted an additional challenge for
EPA related to economically disadvantaged communities. In April 2011,
the OIG reported that EPA could not assess the overall impact of Recovery
Act funds on economically disadvantaged communities because it did not
collect data on the amount of SRF program funds distributed to
economically disadvantaged communities nationwide. The OIG
recommended that EPA establish a system that can target program funds
to its objectives and priorities, such as funding economically
disadvantaged communities.

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19EPA OIG, *Evaluation Report: EPA Faced Multiple Constraints to Targeting Recovery
For the quarter ending December 2009 through the quarter ending in June 2010, the number of full-time equivalent jobs (FTE) paid for with Recovery Act SRF program funds increased each reporting quarter from about 6,000 to 15,000 quarterly FTEs for planning, designing, and building water projects, as shown in figure 5. As projects are completed and funds spent, the number of FTEs funded has declined to about 6,000 for the quarter ending March 2011. Following OMB guidance, states reported FTEs that included only the jobs directly paid for with Recovery Act funding, not the employment impact on suppliers of materials (indirect jobs) or on the local communities (induced jobs). In addition, state officials told us that, although funding varies from project to project, 10 percent to 80 percent of a project’s funding is typically for materials such as cement for buildings and equipment such as turbines, pumps and centrifuges, and the remainder pays for labor or FTEs.
Nearly all recipients reported funding at least a partial FTE with Recovery Act funds. In comparing clean and drinking water funds across the reporting quarters from October 2010 through March 2011, we found that the percentage of recipients who reported funding at least a partial FTE ranged from 97 percent to 100 percent.

To oversee Recovery Act projects and funds, EPA developed an oversight plan, as required by OMB. In response to our May 2010 bimonthly review and recommendation, EPA updated its guidance to include specific steps to monitor compliance with Recovery Act Clean and Drinking Water SRF program provisions.20 Our current work is showing that EPA and the states have made progress in implementing EPA’s updated plan, which included details on frequency, content, and documentation needed for regional reviews of state programs and state reviews of projects. EPA officials said that regional staff are visiting all 50 states and reviewing their Clean and Drinking Water funds.

20GAO-10-604.
Drinking Water SRFs according to its plan. Furthermore, officials in the nine states we reviewed indicated that they have visited Recovery Act projects at least once during construction, as required in EPA’s oversight plan.

Challenges in Implementing Recovery Act SRF Programs Highlight Potential Future Challenges for SRF Programs

Our May 2010 report identified the challenge of maintaining accountability for Recovery Act funds and recommended improved monitoring of Recovery Act funds by EPA and the states. As we note above, our current work shows that EPA and the nine states we reviewed have made progress in addressing this challenge. Two challenges EPA and the states faced in spending Recovery Act SRF program funds may continue as requirements introduced with the Recovery Act are incorporated into the base programs. Specifically, in fiscal years 2010 and 2011, the Clean and Drinking Water SRF programs were required to include green projects and additional subsidization provisions.

Encouraging green projects. The effort to support green projects was included in EPA’s fiscal year 2010 and 2011 appropriations for the base Clean and Drinking Water SRF programs. As we discussed above, under the green requirement in the Recovery Act, in certain cases state officials said they had to choose between a green water project and a project that was otherwise ranked higher to address water quality problems. We found similar results in our May 2010 report, when officials in some of the 14 states we reviewed said that they gave preference to green projects for funding purposes, and sometimes ranked those projects above another project with higher public health benefits. In addition to competing priorities for funding, EPA’s OIG found, in its February 2010 report, that a lack of clear guidance on the green requirement caused confusion and disagreements as to which projects were eligible for green funding.

Officials in two of the nine states we reviewed noted that the goal of supporting green projects was not difficult to achieve because they had already identified green projects, but officials in four other states said that achieving the 20-percent green project goal was difficult to achieve, leading one official to suggest that green projects be encouraged without setting a fixed percentage of program funds.

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21GAO-10-604.

Providing subsidization. The fiscal years 2010 and 2011 appropriations for the Clean and Drinking Water SRF programs also continued the requirement to provide additional subsidies in the form of principal forgiveness, negative interest loans, or grants. The subsidy provisions reduced the funds available to use as a subsidy from a minimum of 50 percent of total Recovery Act funds to a minimum of 30 percent of base SRF program funds.\(^{23}\) As with the Recovery Act, the appropriations in fiscal year 2010 and 2011 do not require this additional subsidy to be targeted to any types of projects or communities with economic need, \(^{24}\) and as the recent EPA OIG report notes, there are no requirements for EPA or the states to track how these subsidies are used. The Clean and Drinking Water SRF programs were created to be a sustainable source of funding for communities’ water and wastewater infrastructure through the continued repayment of loans to states. Officials in four of the nine states we reviewed identified a potential challenge in continuing to provide a specific amount of subsidies while sustaining the clean and drinking SRF programs as revolving funds. State officials pointed out that when monies are not repaid into the revolving fund, the reuse of funds is reduced and the purpose of the revolving SRF program changes from primarily providing loans for investments in water infrastructure to providing grants.

Mr. Chairman, Ranking Member, and Members of the Committee, this concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Committee might have.

For further information regarding this statement, please contact David C. Trimble at (202) 512-3841 or trimbled@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this statement include Jillian Fasching, Susan Iott, Jonathan Kucskar, Carol Peterson, Beverly Ross, Carol Herrnstadt Shulman, Dawn Shorey, Kathryn Smith, and Kiki Theodoropoulos.

\(^{23}\)For the Clean Water SRF program, the 30 percent-minimum only applies to the portion of appropriated funds exceeding $1 billion.

\(^{24}\)The Drinking Water SRF program had a subsidy provision that allowed states to use up to 30 percent of their annual grant to provide additional subsidies to help economically disadvantaged communities. 42 U.S.C. § 300j-12(d).
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